

MAINE LOBSTER INDUSTRY



STRATEGIC PLAN

PREPARED ON BEHALF OF THE GOVERNOR'S TASK FORCE ON THE
ECONOMIC SUSTAINABILITY OF MAINE'S LOBSTER INDUSTRY



DEVELOPED BY THE MOSELEY GROUP | June 8, 2009 (FINAL)

Executive Summary

The Maine lobster industry is the state's most visible and iconic industry. Its importance is nearly impossible to quantify as the lifeblood to coastal communities, the nucleus of shoreside tourism and the economic engine for thousands of Maine households.

The industry faces tremendous pressure participating in today's highly competitive worldwide marketplace, as two key market forces wring profitability from all industry constituents. Remarkably strong "Buyer Power" constrains every sector of the industry, as all players struggle to sell the same undifferentiated and commoditized product, seeking to extract value from volume. And Maine lobster faces increasing pressure from the "Threat of Substitution" which extracts value from the industry as lesser-priced proteins gain favor on the dinner plates of consumers struck by today's difficult economic environment.

Maine's lobster industry has significant potential to strengthen its economic sustainability and overcome current market conditions, given its uniquely beloved brand and products. But this opportunity is hindered by the vast rivalry among its constituents, caused by current market forces. As these forces squeeze profitability out of the industry, constituents become rivalrous in seeking to maintain their slice of the pie. Dealers fight with one another for access to supply from lobstermen as well as for access to customers in the marketplace. And harvesters are frustrated with their position at the "cod end," where they are forced to accept their income fate set by the market. Harvester-to-dealer rivalry is high, as many harvesters believe that dealers arrange and artificially set the prices paid for their catch. It is not well understood that dealers, in fact, serve as the marketing arm of the industry, responsible for extracting the highest value possible for all 65+ million pounds landed on Maine docks.

This rivalry pulls profitability out of the industry by effectively eliminating appropriate, strategic focus on the marketplace: "what does the customer want?"

We recommend the adoption of the following reforms in order to realign industry constituents to focus on maximizing the industry's profitability potential.

Consolidate the efforts of existing fragmented support organizations into one entity to manage the industry's business future.

There are multiple organizations in Maine dealing with lobster marketing and research. They compete for limited funding, undertake activities that duplicate or overlap concurrent activities by another organization and pursue activities that may not have relevancy to the need of the industry or markets it serves. The industry stands to realize greater profits with all constituents pulling in the same direction. Where possible, we recommend the consolidation of these entities into a single organization called the Maine Lobster Institute that would manage and direct research and marketing efforts for the entire Maine lobster industry.

Manage for sustainability.

The core of the industry is sustainability, defined by the deeply-rooted community network of families and family businesses, the respect for and stewardship of the ocean environment and the responsible harvesting practices of the fishermen. Sustainability in the Maine lobster industry means more than a seal of approval by an environmental organization. We recommend strategic management of the industry to foster this heritage of sustainability through the continuation and strengthening of current practices and communicating their importance.

Improve yield through handling reform.

Managing yield, or “shrink,” the amount of saleable product extracted from the harvest, is important in any natural resource based industry. But in the lobster business, because of high base prices that reach as much as six dollars a pound, maximizing shrink is the absolute key to profitable existence. As much as 20% of the lobster harvest is lost each year through the distribution channel, resulting in an estimated \$50 million loss. Therefore, reform of handling practices stands to deliver tremendous value to the industry.

Develop the Maine Lobster brand.

Consumers ask for Maine Lobster by name, and that brand equity is the industry’s golden goose. In order to harness its value, we recommend the brand be protected, developed and nurtured through strategic communications that highlight the distinct characteristics of the industry, its harvest and products. Initial efforts may seek to deliver on a harbor-specific or harvest-oriented product/brand strategies through closer integration between dealers and harvesters to market directly to consumers.

Market to targeted, high-opportunity segments.

There are many different consumers of lobsters – people who buy them live at the local market for a family lobster bake, the couple that celebrates a special occasion at their favorite upscale restaurant, the tourist who samples the wide variety of Maine lobster rolls. Yet the marketing of Maine lobster often fails to recognize this segmentation of the market. We recommend that the industry examine the needs of specific buying audiences and their psychological states (attitudes/behaviors) in order to direct unique marketing messages to each consumer profile.

Support and encourage innovation.

As consumers’ understanding of nutrition becomes increasingly sophisticated, their knowledge and demand creates significant growth opportunity for products with nutritional benefits for health and wellness. We recommend significant R&D funding to support the investigation of functional nutrition attributes of the Maine lobster and the development of such products. This bears tremendous potential for the creation of a high-value business model.

Background and Current Situation

The Moseley Group was hired by the Governor's Task Force on the Economic Sustainability of Maine's Lobster Industry to conduct a diagnostic analysis of the industry and develop a strategic plan, following a drastic industry price crash in the fall of 2008. The Moseley Group is a managing consulting firm to the world's leading food & beverage companies: www.moseleycorp.com.

After the initial phase of investigation that included extensive stakeholder interviews, data gathering & analysis, The Moseley Group presented a diagnostic analysis of the industry to the task force and industry members. The diagnostic is Attachment A to this strategic plan.

Key findings expressed in our analysis include the following:

A convergence of dynamics caused the drop in boat prices in fall 08

- Reduced supply in spring 07 prompted 68% increase over average boat price
- By fall 07 prices remained high, now at 7% over average boat price
- Concurrent oversupply of frozen tails and decline in casual dine segment demand brought prices down sharply by spring 08, now 50% below average price
- Continuing decline in demand and an oversupply of frozen tails ran straight into the global banking crisis in the fall and buying came to a halt

2009 is likely to be soft, as well

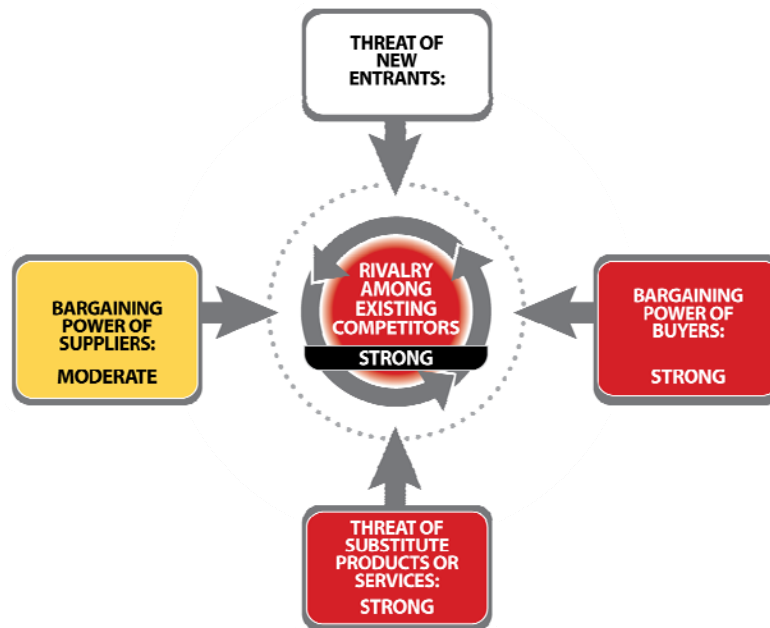
- Economic climate is weak
- Market conditions for primary foodservice channels are weak
- Consumers are price constrained

Maine lobster is not competing effectively to meet market conditions; market segments and offerings need to be broadened to increase penetration and stabilize price

Analysis of drivers of industry profitability by sector identified intense rivalry and fragmentation, preventing cohesive market approach for the industry

- Buyer bargaining power and threat of substitution are strong in all sectors
 - Buyer bargaining power
 - Undiversified portfolio of markets
 - Undifferentiated product
 - Constrained access to capital
 - Substitution
 - Canadian lobster
 - Shrimp/lesser priced seafood
 - Farmed lobster
 - Inconsistent supply

- Supplier power is moderate with strong potential to be problematic
 - Variable quality
 - Sustained product volume



The diagnostic offered clear indication that the industry would benefit from the development of a strategic prioritization mechanism for managing the business of the industry. Several strategic initiatives were identified and prioritized for further development; together they comprise this strategic plan.

- Market Segmentation: Opportunity Assessment
- Market Segmentation: Short-Term Market Conditions
- Competitive Product Strategy
- Product Quality Strategy
- Marketing Communications: brand strategy
- Marketing Communications: sustainability strategy
- New Management Entity: Marketing & Research Focused

Market Segmentation: Opportunity Assessment

Current State

The lobster industry maintains significant reliance on a limited number of markets whose buyers have been hard-hit by the country's weak economic state and low consumer confidence. Maine's key buyers of new shell lobster, large multi-unit casual dining chains (via processors), are struggling to deliver compelling value to American consumers who have become increasingly price-sensitive and value conscious. As a result, chains are reporting severe revenue and profitability declines as they struggle to adjust menu offerings and develop pricing strategies to re-engage the once-loyal customer base. This imbalanced reliance on the foodservice channel has left the industry in a weak competitive position.

Looking ahead to 2010 and beyond, it's important for the industry to examine and fully understand the needs of specific buying audiences and their psychological states (attitudes/behaviors) in order to frame up potential opportunity and direct energies to leveraging those strongest opportunities.

Regression analysis of consumer research on the Maine Lobster brand and Maine lobster products conducted by Maine Lobster Promotion Council in 2005 identified several buyer profiles, as defined by their attitudes toward lobster. This data is somewhat dated, so we have overlaid these profiles with the psychology of consumers buying in today's recessionary environment. Further, we have developed an industry/channel segmentation platform. Through this cross-referenced matrix, we are able to identify new market opportunity and develop a competitive strategy to realize new potential for the industry.

Lobster Consumer Segmentation

The MLPC research identified six distinct behavioral and attitudinal groups:

Convenient Lobster Lovers

Demographics: This group is made up of relatively young individuals between the ages of 18 and 49, primarily living in suburbs. The majority are married, college educated, with relatively high incomes. (28% of market)

Lobster Attitudes and Experience: Almost all of this segment have eaten lobster at some time in their lives and seem to really enjoy lobster as almost 9 out of every 10 individuals from this segment have eaten lobster in the past year. Most have eaten lobster in a restaurant but few have eaten lobster at home. They tend to feel strongly that a restaurant is the best place for lobster. Indeed, members of this segment were over 5 times more likely to say that a restaurant compared to home is the best place to eat lobster.

Young Middle America

Demographics: This group is made up of relatively younger individuals. Most are women from the Midwest and South. Most are married or living with a partner and their income is relatively low. (20% of market)

Lobster Attitudes and Experience: Only about three-quarters of this segment have ever eaten lobster and only about a third have done so in the past year. Not surprisingly, given their incomes, over 4 out of 5 believe that lobster is too expensive to eat regularly. In addition to this barrier to lobster eating, this segment was more likely to say that they are bothered by the way lobster is killed and cooked and that lobster is too messy to eat. Only two-thirds have eaten lobster at a restaurant and only about 1 out of every 10 have ever eaten lobster at home. Maine lobster does not have a strong reputation with this segment.

Lobster Traditionalists

Demographics: The largest proportion of this segment comes from the Northeast. Most are men and most are college graduates. The majority are married and living in smaller households (2 or less) without children. (15% of market)

Lobster Attitudes and Experience: Almost the entire segment has eaten lobster at some time in their lives with 4 out of 5 having eaten lobster in the past year. This segment loves their lobster and this seems to be specific to lobster. Compared to other lobster lovers they were much less likely to say they eat seafood often. Most have eaten lobster at a restaurant but compared to other segments, this segment has eaten lobster at home quite a lot as well. Indeed, over half have eaten lobster tails or used lobster as an ingredient at home. In addition, two-thirds have eaten the traditional hot boiled lobster dinner at home. This segment is different from other segments in that they say that home is the best place for lobster. Almost as many said home is the best for lobster as those who said a restaurant is the best place for lobster. The majority of this segment also reports that they are always looking for new and different items as well as new recipes to add variety to their meals, so there is a potential for increased lobster sales within this segment. Marketing lobster should be relatively simple with this group as compared to other segments. Traditionalists say they are motivated to purchase lobster through traditional marketing strategies.

Adventurers

Demographics: Located throughout the U.S. Most are between the ages of 30 and 49 but a significant minority (25%) are over the age of 60. About half are from the suburbs. Almost half are college graduates and this is a relatively wealthy group as the largest proportion make over \$80,000. The majority are married or living with a partner and very few have never been married. Most live in 1 or 2 person households and about 3 out of every 5 do not have children. (13% of the market)

Lobster Attitudes and Experience: This segment is crazy about their lobster as all of them have eaten lobster at some time in their lives and over 9 out of 10 have eaten lobster in the past year, however, this does not seem to be specific to lobster as 9 out of 10 also report that they eat seafood often. Nearly all have eaten lobster at a restaurant and almost as many have eaten lobster at home. Similar to the lobster traditionalists, this segment is about equally likely to say that home is the best place for lobster as they are to say that a restaurant is the best place to eat lobster.

Moral/Aesthetic Protesters

Demographics: More than half of this segment is from the South, with about another quarter from the West. Most are women. Almost half are under the age of 39, however, a sizeable minority of about one-third of the segment are over the age of 60. More than half have a high school education or less. This is not a wealthy group as the largest proportions of individuals from this segment are in the two bottom income categories. Almost half are married or living with a partner. Most are living in small 1 to 2 person households without children. (13% of the market)

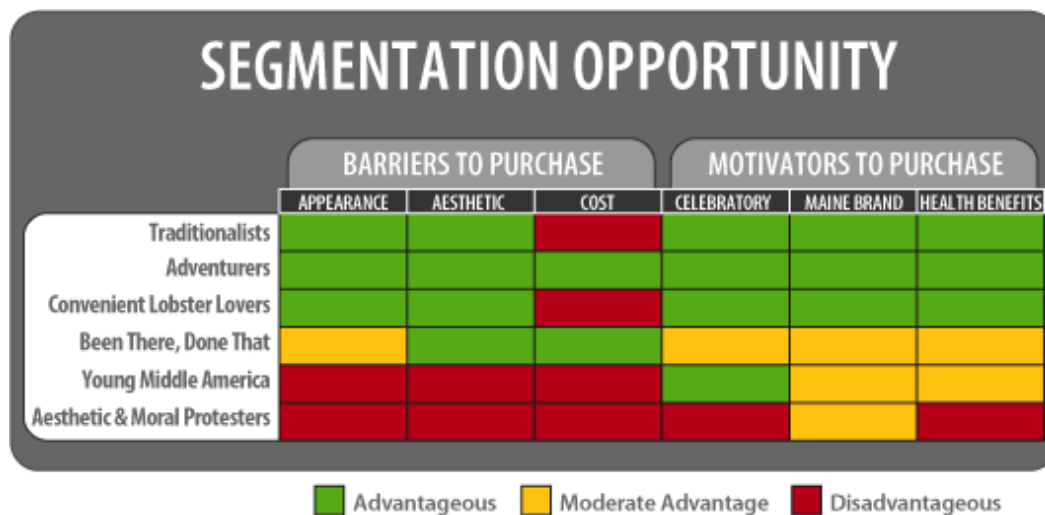
Lobster Attitudes and Experience: The barrier to eating lobster that differentiated this segment from the others is the way lobster is eaten and prepared. Additionally, this segment had the highest proportion of individuals who reported that they did not like the look of whole lobster.

Been There Done That

Demographics: This segment is about evenly distributed across the 4 census regions of the U.S. About two-thirds of those in this segment are men. Most live in suburban or rural areas and are about evenly distributed across the three education categories. The members of this segment are relatively evenly distributed across income categories, however, the largest proportion (29%) are in the \$80,000 or more income category. Over half are married or living with a partner and three-quarters are not currently living with children. (11% of overall market)

Lobster Attitudes and Experience: Almost all the members of this segment have tried lobster at some time in their lives but only half have eaten lobster in the past year. However, this segment does not seem to enjoy eating seafood in general, as only about a third reported eating seafood often. Nine out of 10 have eaten lobster at a restaurant and only about 1 out of every 5 members of this segment has ever eaten lobster at home. The respondents from this segment were about 5 times more likely to say that a restaurant is the best place for lobster compared to home.

The research identifies barriers to purchase and motivators to purchase. The following matrix illustrates these by segment, with green cells representing positive opportunity, red representing lack of opportunity and yellow representing limited opportunity.



The “Adventurers” group offers the greatest opportunity, with its completely green sweep of advantageous positions. The channel for Adventurers is foodservice: this is where they are most likely to purchase lobster. They’re seeking creative, innovative culinary offerings and are willing to pay for them. Adventurers are equally dispersed throughout the country with no high concentration in any one region.

Traditionalists are already keen loyalists of lobster – and Maine lobster – and the objective for further penetration of the segment will be increased purchase frequency. The potential to increase penetration in this segment, however, is tempered by their occasion for purchase – special occasions only – and their concern about the high cost. Highly concentrated in the Northeast, these consumers can be reached through foodservice and retail as they are equally as likely to purchase in either channel.

Convenient Lobster Lovers offer significant opportunity in the foodservice segment, where they are most likely to eat lobster, although their cost concern must be overcome with meaningful value: these consumers are willing to pay a premium for “special” and they seek innovative culinary treatments. There may be further opportunity in the retail channel either with lobster meat or value-added/secondary processing products but because of the cost-consciousness, this opportunity may be restricted, depending on production costs. Because Convenient Lobster Lovers are located throughout the country, there is no need for specific geographic targeting.

Although the Been There Done That group shows a significant amount of yellow, representing limited opportunity, we see strong potential for this group, with properly targeted marketing in the foodservice channel. Because these consumers are not concerned with the cost nor with the matter of cruelty, the most significant barriers to purchase, marketing can focus on delivering some “wow” factor to overcome their

generally blasé perspective on lobster. Existing marketing communications approaches are not compelling; in order to motivate purchase, marketers will need to develop innovative products or technologies.

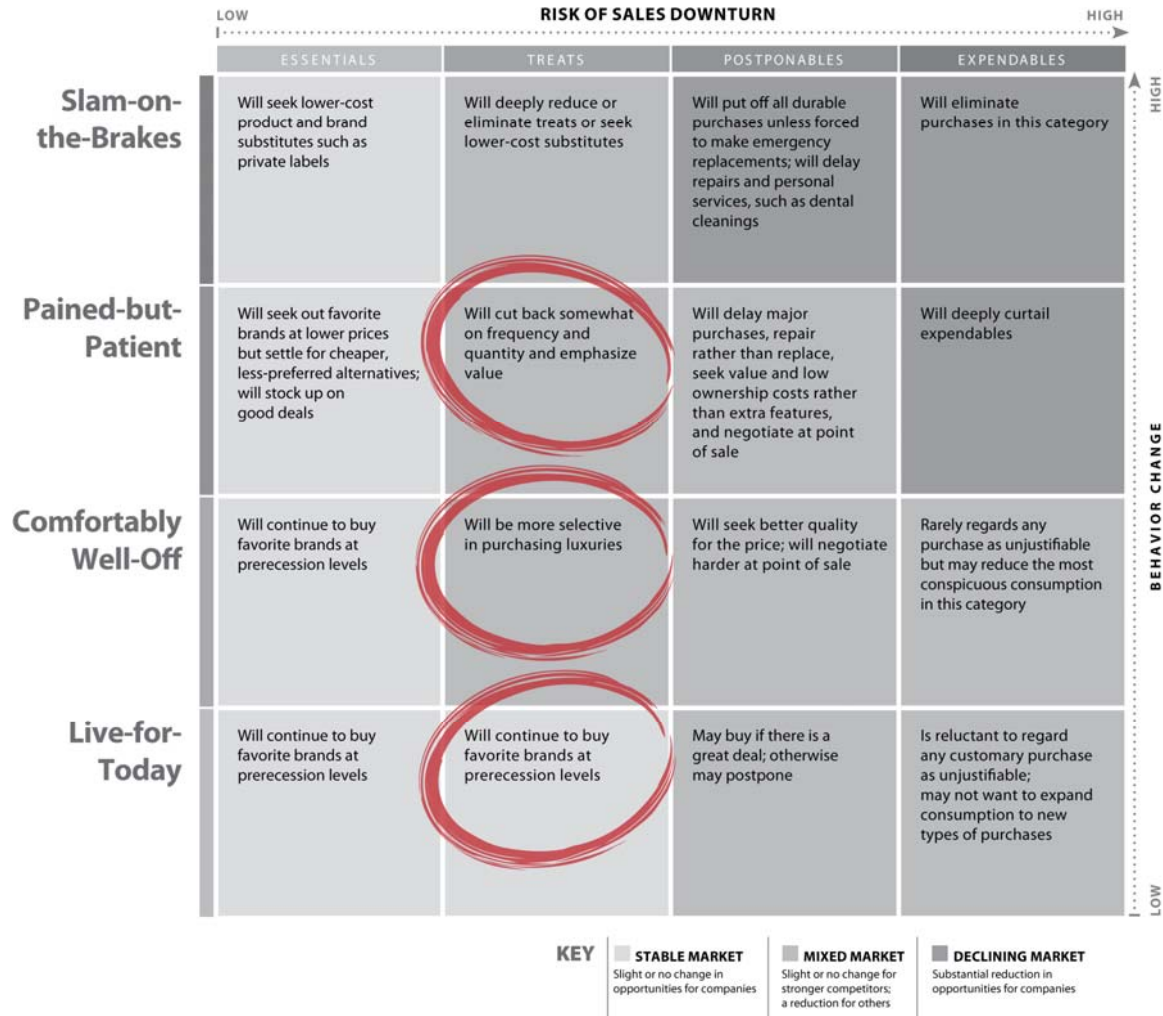
Young Middle America represents very limited opportunity, given their concerns about cost and cruelty, their limited interest in the appearance of both in-shell lobster and lobster meat, lack of interest in lobster from Maine, and lack of awareness of lobster's health benefits.

The Aesthetic/Moral Protestor segment offers relatively no opportunity to the industry.

Consumer Buyer Segmentation

The weakened state of America's prosperity has driven the Conference Board's Consumer Confidence Index to its lowest point since it began tracking. In a recession, nearly all consumers reevaluate spending priorities, shifting their attitude toward products and services from "essentials" to "treats," "postponables" or even "expendables." Yet within the consumer population, there are variable attitudes and spending behaviors. Research by John Quelch and Katherine Jocz (*Harvard Business Review*, April 2009) identifies four profiles; these profiles can help us better understand the psychology of consumer buying habits and allow us to direct energies toward those with highest opportunity for the Maine lobster industry. The "Comfortably Well Off" segment includes the wealthiest 5% of consumers and those who feel confident in their financial stability. While they continue to spend at pre-recession levels, they are somewhat more selective and less conspicuous. The "Live for Today" segment tends to spend on *experiences* rather than *stuff*; they are unlikely to change their consumption behavior unless they become unemployed. "Pained but Patient" consumers are generally optimistic about the long-term, but less confident in maintaining their lifestyle in the near-term. They tend to economize in all areas of spending yet will occasionally buy "treats." This is the largest segment and spans a wide range of income levels. "Slam on the Brakes" feels most vulnerable and hardest hit financially; these consumers reduce their spending across all categories.

Consumer Segments' Changing Behavior



We identify lobster as a “Treat” and consider consumer attitudes accordingly. Slam on the Brakes consumers will likely seek substitutions in the way of lesser-priced proteins, pushing lobster to the “Expendable” category. This group offers little opportunity to the lobster industry without reduced pricing. The Pained but Patient group will likely reduce their frequency of purchase, viewing lobster as “Postponable” or “Expendable,” unless the brand and products are positioned as affordable indulgence. The Comfortably Well Off segment will continue to purchase Maine lobster, as long as they continue to see it as a premium brand: for them to buy, the product will need to be “worth it.” The Live for Today group will continue to purchase Maine lobster at normal rates. These consumers may be particularly encouraged to purchase via “live for today” and celebratory messaging. The chart below compares Lobster Consumer Profiles with recessionary buying attitudes.

Lobster Consumers' Recessionary Buying Attitudes

TARGET AUDIENCE	ADVENTURERS	TRADITIONALISTS	CONVENIENT LOBSTER LOVERS	BEEN THERE, DONE THAT
Slam on the Brakes				
Pained, but Patient		✓	✓	
Comfortably Well Off	✓	✓	✓	✓
Live for Today	✓		✓	✓

Industry/Channel Segmentation

Foodservice Channel

Growth in the foodservice industry has stagnated during the current recession, yet consumer lifestyles – lack of time, need for convenience – continue to demand the services of the foodservice sector. Opportunity exists within specific industry segments that align with the high-opportunity consumer groups previously identified:

Traditionalists, Adventurers and Convenient Lobster Lovers with the Pained but Patient, Comfortably Well-Off and Live for Today purchasing attitudes.

Fast Casual

The Fast Casual segment continues to perform extremely well, outperforming most others: annual sales grew 15% in 2007 compared to an average industry growth rate of 2%. The segment is largely populated by bakery and Mexican concepts; examples of Fast Casual restaurants include Au Bon Pain, Panera Bread, Chipotle and Moe's Southwest Grill. The core tenets of the segment are to deliver higher-than-average culinary innovation and food quality at affordable pricing, in a quick and convenient manner. These attributes speak directly to the Convenient Lobster Lovers with Pained but Patient attitudes.

Fine Dining

Lobster is often found on fine dining menus, appealing to Traditionalists. Although sales have suffered in Fine Dining, there is opportunity for penetrating the segment as operators seek to offer patrons affordable indulgences. (See appending *WSJ* and *NYT* articles.) To further penetrate the segment, we recommend targeting the bar segment of fine dining, which is booming: small plates menus are being used as a method of building repeat visitation via relatively modest check averages. The appeal of affordable indulgence speaks directly to Adventurers and Convenient Lobster Lovers with Comfortably Well-Off and Live for Today attitudes.

Fine Fast

An emerging segment, Fine Fast offers chef-inspired, exceptionally high culinary experiences. Independents dominate the segment; chain concepts are not yet in the marketplace, yet several are in development. Examples include Tom Colicchio's Craftwich in NYC, Fast Good in Madrid, and Ovest Express in Lyon. These concepts are green/sustainability-oriented, and deliver unusual flavor combinations through organic and locally-sourced ingredients. These attributes deliver compelling, authentic experiences to Adventurers and Convenient Lobster Lovers with Live for Today attitudes.

Retail Channel

Supermarket

Within the supermarket segment, Traditionalists are the most likely buyers given their willingness to cook lobster at home. Generally, the supermarket segment merchandises live lobster in tanks, sold on the basis of price point. Some retailers offer cook-to-order, and expansion of this service should be a key message for penetrating the segment. With focused trade marketing and education efforts, there is strong potential for the sale of lobster products to Been There Done That consumers with Comfortably Well Off and Live for Today attitudes. Regional focus should remain on Northeast and Florida, home of Traditionalists, and regional expansion targeting Been There Done That consumers should run in concert with regional penetration in foodservice.

Specialty Food

Specialty food retailers, such as Fairway Market, offer strong opportunity for accessing the Lobster Adventurer consumer with a Comfortably Well Off attitude. In particular, lobster products have the greatest potential, since this segment of the market is unlikely to have existing infrastructure (tanks). This consumer is the least cost-constrained and most likely to demand high-quality ingredients. Regional segmentation should coordinate with chosen foodservice markets.

Market Segmentation: Short Term Market Conditions

Current State

As a result of diminished prices last summer and fall, Maine's lobstermen lost an estimated \$50 million in revenue. This sum doesn't include the value lost to other industry constituents such as dealers and processors, to supporting business such as gear suppliers and trap manufacturers, and to tertiary business such as hardware stores and restaurants. The industry and the State are highly concerned about a repeat situation this fall, and the following approach is designed to change the market dynamics so as to build demand and overcome the price erosion of last summer. This investment in building demand is designed for execution during the peak harvest season.

Opportunity

The industry has the potential to improve prices this summer and fall by developing new markets in both foodservice and retail channels. Historically, a relatively limited amount of new shell product has been sold through the retail channel, largely because of the demand from the processor buyers and their strong willingness to pay. Last fall, as this willingness retracted, an act that had been unanticipated by most and that contributed to the boat price to crash, retailers stepped in as the primary market and sold a tremendous volume of new shell product using low retail price points. This fall, the network of retailers can be expanded beyond state lines to include those within a day's drive of Maine in high-population cities, such as Boston, Providence, Hartford, New York, Philadelphia, Atlantic City. Foodservice offers opportunity as well, looking to segments other than Casual Dining, such as Fast Casual (Panera Bread), Fine Dining (independents).

Approach

The opportunity for this market expansion lies in making connections with those buyers who are most likely to find value in the differentiated attributes of Maine new shell product: its sweet, succulent flavor, the sustainability of the industry, and the short nature of the season. We recommend the development of a coordinated Maine Lobster Harvest program that lasts the length of the peak season of August/September/October. Modeled after wine harvest programs, Maine Lobster Harvest would serve to engage consumers and trade buyers in the nuances of the fishery and build demand during peak harvest.



(concept only)

Audiences

Consumers

From the Maine Lobster Promotion Council segmentation study, we identify Traditionalists and Adventurers as having most near-term opportunity for “summer lobster,” Traditionalists for their demand of in-shell lobster and Adventurers for their interest in robust flavor profile. Both segments are loyal to Maine lobster, reporting strong preference for lobster from Maine, both have strong positive associations (health attributes, celebratory) and both have the fewest negative associations (messiness, aesthetics). These are the consumers to target for short-term market activities.

Lobster Traditionalists

Demographics: The largest proportion of this segment comes from the Northeast. Most are men and most are college graduates. The majority are married and living in smaller households (2 or less) without children.

Lobster Attitudes and Experience: Almost the entire segment has eaten lobster at some time in their lives with 4 out of 5 having eaten lobster in the past year. This segment loves their lobster and this seems to be specific to lobster. Compared to other lobster lovers they were much less likely to say they eat seafood often. Most have eaten lobster at a restaurant but compared to other segments, this segment has eaten lobster at home quite a lot as well. Indeed, over half have eaten lobster tails or used lobster as an ingredient at home. In addition, two-thirds have eaten the traditional hot boiled lobster dinner at home. Almost as many said home is the best for lobster as those who said a restaurant is the best place for lobster.

Adventurers

Demographics: Located throughout the U.S. Most are between the ages of 30 and 49. About half are from the suburbs. Almost half are college graduates and this is a relatively wealthy group as the largest proportion make over \$80,000. The majority are married or living with a partner and very few have never been married. Most live in 1 or 2 person households and about 3 out of every 5 do not have children.

Lobster Attitudes and Experience: This segment is crazy about their lobster as all of them have eaten lobster at some time in their lives and over 9 out of 10 have eaten lobster in the past year, however, this does not seem to be specific to lobster as 9 out of 10 also report that they eat seafood often. Nearly all have eaten lobster at a restaurant and almost as many have eaten lobster at home. Similar to the lobster traditionalists, this segment is about equally likely to say that home is the best place for lobster as they are to say that a restaurant is the best place to eat lobster.

Retail Channel

We recommend a concerted focus on the retail channel, reaching out to regional chains in target cities. The Maine Lobster Harvest program would be developed for easy adoption by multiple chains, a turnkey solution for retailers to merchandise and highlight Maine lobster. The program would focus on live and processed lobster, and could highlight innovative packaging and in-store displays.



(concept only)

Foodservice Channel

The industry has strong relationships with the Culinary Institute of America and the American Culinary Federation, two of the country's leading culinary entities, forged through long-established partnerships and promotional activities with the Maine Lobster Promotion Council. These relationships can be leveraged to connect with a vast network of thousands of chefs in target cities within Fast Casual and Fine Dining segments. (See appending article from *Flavor & The Menu*.) The objective of the Maine Lobster Harvest program in this channel is to gain menu placement of "Maine Lobster." Programming would likely require custom solutions as operators seek differentiation in their menu offerings and marketing. Program elements may largely focus on trade communications, encouraging chefs to highlight Maine Lobster on their menu, with innovative dishes for the Adventurers and traditional approaches for the Traditionalists.

Retail and foodservice marketing activities must be supported and implemented by industry members, leveraging the vast dealer network; the importance of this support, commitment and buy-in cannot be underestimated.

Implementation

We recommend first developing initial program concepts of Maine Lobster Harvest, and then testing the concept with key retailers and foodservice operators and making recommended adaptations based on their inputs. These initial meetings will guide the development of the program; following these interviews, devise a detailed implementation plan including media placements and messaging development. We recommend the development of a coordinated communications campaign with consistent messaging in the targeted cities to support retail and foodservice trade efforts.

Television is the dominant method of effective communications reach: nothing motivates the general consumer like television. Because Americans love Maine lobster and are romanced by the industry's heritage and tradition, there's a tremendous opportunity to bring this persona to life and deliver the voice of the industry. We recommend the development and broadcast of a television campaign designed to bring to life the Maine lobster industry's full-circle sustainability. Media should run in the months of August/September/October.

For audiences with high-disposable income brackets, social media is quickly becoming the major method of delivering news and information. We recommend a communications approach that presents key messages of differentiation (flavor and sustainability) through the use of a comprehensive social media campaign with full-time blogging, Facebooking, Twittering (Tweeting), and viral media (YouTube).

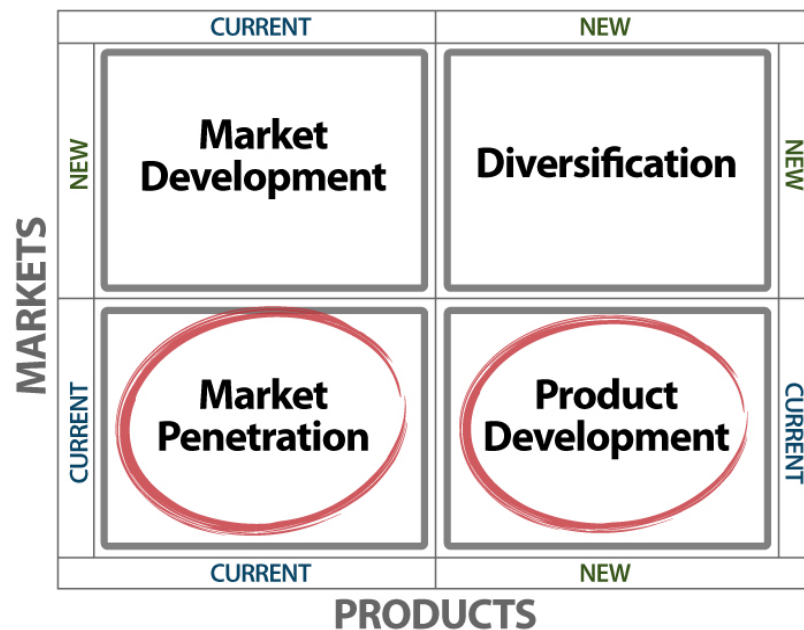
The campaign should also include traditional public relations efforts, with the objective of obtaining coverage in local/regional/national daily/weekly/monthly publications, and in broadcast media. Media tours should kick off the Maine Lobster Harvest, ideally with celebrity chefs and/or celebrity media personalities.

Competitive Product Strategy

Current Situation

Substitution serves as a hindrance to current business development efforts and holds the greatest future threat to the industry. A substitute is defined as anything performing the same or similar function by a different means. Shrimp is a substitution to Maine lobster, as is Canadian lobster, as are langostino lobster, spiny lobster and filet mignon; the list goes on and on. The current panoply of substitute choices and lack of brand protection create a high threat of substitution, as discussed extensively in the appending document dated 4/9/09. This threat hinders industry profit potential by effectively placing a ceiling on prices¹.

The consumer's positive attitude toward lobster, and toward Maine lobster, can help thwart substitution but only if the brand and products are well-protected from pirating. The objective of this competitive product strategy is to stop profit leaks that flow to competitors as a result of substitution. In this, we focus largely on Market Penetration and Product Development – deepening market share. (See the Market Segmentation section for discussion of Market Development.)



¹ Michael Porter, The Five Forces That Shape Strategy, Harvard Business Review January 2008

Approach: Market Penetration

The construct of market penetration entails the selling of current products within current markets. There are several components for consideration in Market Penetration:

Salient Product Attributes

Maine lobster's salient attributes are those that, all other things being equal, will swing a purchase decision in its favor. In evaluating salient attributes, we consider purchasing patterns, use and perceptions of risk². From this review, we're able to consider the current state and construct an opportunistic state for improved market penetration.

CHANNELS	PURCHASING PATTERNS	CUSTOMER USES	RISKS
Restaurants	Indulgences Life celebrations Holiday celebrations	Experience: Social, prestigious expression	No yield guarantee Inconsistent supply/price
Retail	Family events Indulgences	Experience: Social, informal celebration	No yield guarantee Inconsistent supply/price
Catalog/Online	Holiday celebrations Indulgences	Experience: Surprise & delight	No yield guarantee Inconsistent supply

Consumer and trade buyers desire lobster for the experience and highly crave-able flavor profile. Maine lobster is celebratory, served for life events such as weddings, Mother's Day, 40th Birthdays, for family and holiday celebrations like Labor Day and New Year's Eve, and in moments of indulgence: "let's have lobster tonight!" Such celebratory sentiment is highly salient.

The Risks column identifies opportunity for improved alignment between demand and offering. The lack of product guarantee related to yield ("How much meat is in this lobster?") is a significant shortfall, as is the inconsistent supply resulting from seasonal harvesting.

Yield and quality guarantee is lacking at all points of the distribution channel, and this shortcoming extracts tremendous value from the industry. Starting at the dock where the harvester sells "crate run" and is compensated for delivering weight rather than product quality, and continuing with the dealer who sells to processors in the same manner, buyers don't demand a guarantee of certain

² Ian MacMillan and Rite McGrath, Attribute Categorization and Evaluation

quality or yield, and sellers don't offer one. If the ultimate customer didn't care, there would be no loss of value and no need for reform. But because the consumer votes with a pocketbook, the industry has the opportunity to address product guarantee as a means of capturing lost value. At the core of "product guarantee" is yield. (More detailed discussion on this subject follows in the Product Quality section.)

Inconsistent supply also harms the industry, simply because customers like to have the ability to buy whenever they want to buy. More than 70% of Maine lobster is harvested in four months, from August through November. Currently, to address off-season demand, the dealer network sources product from Canada; Maine pounds are also a source of supply, although Maine's pound activity has diminished over the past decade in correlation to the growth of Canadian tubing/pounding technology. From stakeholder interviews, we understand that Maine's soft shell lobster would not "pound" well. We believe there is opportunity for technology reform in this arena, as an extension of harvest reform, to better manage supply and deliver Maine lobster year-round.

Product Mix – Commodity

Dealers and processors throughout the industry compete for access to the same markets and customers. In many cases, Maine stands at a disadvantage because its product mix doesn't include several products, as shown in the chart below. Some of the differences in product mix are driven by Maine's management practices designed to maintain sustainability. For example, Maine law forbids the harvest of the juvenile lobsters for stock protection; these small lobsters are processed and sold as "popsicles" in Canada. Other differences are driven by "possession" laws designed to keep illegal-size lobsters from being landed in Maine and "mutilation" laws designed to keep illegal-size lobsters from being processed. Because the laws extend from harvesters to processors, Maine companies are precluded from processing many products that Canada sells. This function ultimately hurts all sectors of the industry, as companies are unable to access markets on a broadline basis.

In order to compete in this commodity marketplace, companies must have the requisite product mix. Regulation should allow processors to handle all legal-size Maine lobsters, as defined by Maine law, and all legal-size Canadian lobsters, as defined by Canadian law. This adjustment would allow Maine companies to import and process lobster from Canada that does not meet Maine's size guidelines. Processors would be required to maintain separation of origin to ensure enforcement of harvesting regulations related to stock sustainability.

Maintaining sustainable stock levels is the core of the product strategy: it is critical to align fishing effort with the stock in such a way so as to ensure longevity of the fishery. We have heard concern among stakeholders about the lack of diversity of species still available to commercial fishermen, and the

resultant pressure on the lobster resource. We believe it will be critically important for the lobster industry to understand and manage a biodiversity plan so that, over time, the fishermen can reduce their reliance on only one species and return to fishing from a broader portfolio, thereby mitigating the risk of environmental or biological disaster specific to the singular species.

High pressure processing technology in the production of raw lobster meat produces a product with a differentiated taste profile and reportedly higher yield. Both Maine and Canada employ this technology, offering frozen products produced via HPP. Our understanding is that market adoption has been slow. Reportedly, once frozen, the product does not deliver the same yield improvements as does fresh product. Yet production of fresh products has market penetration limitations as well: fresh product requires precise forecasting and logistics excellence because of the product's limited shelf life. There may be reason to investigate the potential for market adoption of fresh products that deliver more fully the promise of yield improvements. If warranted, technology

development could support market penetration efforts.

Competitive Product Offering		
IQF Lobster	Maine	Canada
Lobster Popsicles - 250 g		X
Lobster Popsicles - 275 g		X
Lobster Popsicles - 300 g		X
Lobster Popsicles - 325 g		X
Lobster Popsicles - 350 g		X
Lobster Popsicles - 400 g		X
Lobster Popsicles - 450 g	X	X
Lobster Netted - 8-10 OZ		X
Lobster Netted - 10-12 OZ		X
Lobster Netted - 12-14 OZ		X
Lobster Netted - 14-16 OZ		X
Lobster Netted - 16-18 OZ	X	X
Lobster Netted - 18-20 OZ	X	X
Lobster Netted - 20-22 OZ	X	X
Claw/Knuckle (in shell) (aka Claws & Arms)		X
Claw/Knuckle (meat)	X	X
Cocktail Claws (Cap-off)		X
Tails (Raw, Frozen)	Maine	Canada
2 - 3 oz.		X
3 oz.		X
3 - 4 oz.	X	X
4 oz.	X	X
4 - 5 oz.	X	X
5 - 6 oz.	X	X
6 - 7 oz.	X	X
7 - 8 oz.	X	X
8 - 10 oz.	X	X
10 - 12 oz.	X	X
12 - 14 oz.		X
14 - 16 oz.		X
16 - 20 oz.		X
20 - 24 oz.		X
Tail Medallions		X
Lobster Meat	Maine	Canada
Cooked, Fresh: 7 day shelf life	X	X
Cooked, Pasteurized: 90 day shelf life	X	X
Cooked, Frozen	X	X
Raw, Frozen	X	X

Imposter Lobster Products

There are significant non-lobster “lobster” products available in the marketplace, including “langostino lobster,” formed nuggets made of ground pelagic crabmeat from El Salvador, and “lobster surimi” shredded, formed white fish with coloring and flavoring. Surimi products range from “lobster tails” to complete “lobsters.” (See images below.) These obvious substitutes for Maine lobster stand as a significant threat, effectively usurping the cache of lobster at much lower prices thereby gaining market penetration on the brand equities of true lobster. The market effect of substitution softens Maine lobster prices. Maine companies have lost millions of dollars of revenue to imposter lobster: in 2006, industry estimates surpassed \$44 million in price erosion from langostino lobster alone.

The Maine lobster brand needs legal and regulatory protection to maintain its value, much as France’s champagne region has successfully regulated the term “champagne” for the grapes grown and wine produced only within its borders.



Approach: Product Development

Product Mix – Value Added

There are relatively few value-added lobster products sold through all channels of the food industry, in which lobster is used one ingredient of many. There are a few Maine companies producing value-added products, and several in Massachusetts. Of the existing products sold through the Retail channel, nearly all are soup-based, a strategy that allows the manufacturer to achieve a marketable price point by making the majority of the product from a low-cost base, such as butter and cream. In Foodservice, there are several offerings of value-added products, but in general, chefs add the value through the creation of their own “Maine Lobster Quesadilla” or other such menu offerings. Operators who do buy added-value products seek consistent portion control and stable food costs. The third channel, Direct-to-Consumer, sells via online/catalog retailing. Products are generally very high quality, with high price points to match. The strategy of this segment is to deliver convenience and elegance for at-home entertaining and celebration. Significant packaging and shipping costs are required to successfully compete in this channel.

Arguably the most challenging aspect of developing and marketing new products is delivering a consistent price as required by the marketplace. The volatility of lobster's commodity/market pricing makes the delivery of stable retail prices very difficult to achieve. This disparity between retailers' requirement of stable prices and the reality of volatile ingredient (lobster) prices is the reason that so few value-added products find their way to store shelves. Indeed, the "soup" strategy and gourmet product strategy provide manufacturers an insurance policy to overcome this disparity. These approaches will likely continue to be the most common avenues to new product development.

There is opportunity, however, beyond the current concept of value-added products. True product innovation may come in the delivery of functional foods, lobster products that deliver compelling health and wellness benefits. As consumers' understanding of nutrition becomes increasingly sophisticated, their knowledge and demand creates significant growth opportunity for products with nutritional content that affects health, well-being and mood. Consumers worldwide seek more from their food now than ever before, in the way of health benefits (keep me spry), nutritional benefits (keep me slim), appearance benefits (keep me beautiful) and mood benefits (keep me happy). And they are spending more money than ever on premium health-giving functional foods. We expect Maine lobster can deliver in these functional areas and therefore offers tremendous potential for a high-value business.

Recommendations: Competitive Product Strategy

Market Penetration

Competitive Product Mix

Disparity must be addressed and leveled wherever possible without harming stock sustainability. Specifically, we recommend review and redraft of the "mutilation" and "possession" laws to allow processors to offer products to the marketplace in a manner that allows Maine companies to compete in key markets and still ensures harvesting laws that protect the stock are enforced.

Supply

We recommend an investigation that considers the value of technology development to improve supply control over time and develops a supporting business case. Improved in-state technology may allow Maine's industry to differentiate and deliver competitive advantage.

Yield

We recommend harvest reform that delivers improved yield. We discuss this approach in great detail in the Product Quality section.

Imposter Lobster Products

Federal and state law must clearly define and protect the Maine Lobster brand and products. We recommend Maine's congressional delegation work swiftly with the FDA and Federal Trade Commission to disallow imposter lobster from the marketplace with the objective of allowing only true lobster products to be marketed as such.

Changing consumer behavior through awareness will likely be the most effective route to protection. We recommend a consumer campaign that stirs "truth in labeling" outrage and encourages consumers to vote with their pocketbooks. Such an approach will ultimately have the greatest potential to halt purchases of imposter lobster.

Product Development

Innovation Financing

The industry will need to invest in new technology and new equipment in order to bring innovation to the marketplace. The State of Maine can play a significant role in encouraging entrepreneurship that supports innovation. Tax incentives for investments in equipment and technology can be useful tools to support private sector investment. From many stakeholders, we heard interest in and ideas for developing innovative products, yet also the inability to afford the significant start-up costs related to launching new products. Some cited the existence of commercialization support through Maine Technology Institute, but the lack of support for initial development work, such as market research & testing, packaging design/development & initial packaging inventory, precludes their ability to reach the commercialization stage. Access to capital, too, is difficult to find. The dealer and processor network manages tremendous risk, balancing today's costs with speculation on future prices. Credit lines of 10% and inventory value insurance of 50% are standard operating tools that many business owners would find unserviceable. We recommend the development of a comprehensive finance strategy to strengthen and support innovation and operation. This strategy will allow business owners access to innovation via broader terms, such as 100% tax incentives for investments in equipment and technology; product development funding through MTI or DECD, and inventory insurance expansion to 60 – 75% of value via FAME-like programming.

Future State Potential

Much of this product strategy focuses on existing, known characteristics of Maine lobster, yet we expect much opportunity exists beyond this realm. We recommend the investment of significant R&D funding to support the investigation of functional nutrition attributes within Maine lobster and for the development of products bearing those attributes that can deliver against consumer demand for health-improving characteristics. We foresee tremendous potential for high-value business in following this trend line and approach.

Product Quality Strategy

Current State

The key characteristic that defines quality of food products is flavor profile. Chefs and diners covet flavors that leave a tantalizing impression on the palate. Maine lobster has a compelling value proposition in its product quality by definition of flavor profile: its subtly sweet succulence and fine texture are unlike any other epicurean delicacy or standard fare.

In the lobster business, very few participants consider flavor profile. In fact, the industry is largely focused on a different measure of product quality: yield. And understandably so: based on our stakeholder interviews, we estimate up to 20% of Maine's harvest is lost to mortality through the distribution channel at a cost exceeding \$50 million each year. No one individual buyer in the chain realizes this full loss, but instead it's shared across multiple channel buyers. This loss in yield is passed along the distribution channel as a transfer of risk as each seller affixes a premium to recover the loss. For example, when a dealer buys from a harvester, he expects some percentage of the lobsters to be "weak" or have very limited life expectancy. The price paid reflects this expectation, i.e. prices are lower on a crate of lobsters with an expected mortality rate than prices would be on a crate with no expectation of mortality. When the dealer then sells to another dealer, this price also reflects an expectation that a certain percentage of the sale will include more "weak" lobsters, for as the time from boat to plate lapses, so increases the rate of mortality. This nasty leak of profitability would be untenable if borne by only one buyer, but because it's absorbed across a network of dealers, it's accepted as a reality of doing business.

Weak lobsters result from damage to their shells after being harvested. Damage and punctures may occur because the shell is very soft having been harvested too soon after molting, or because the crate of 90 pounds of lobster is crushing the bottom layer of lobsters' gills, or from rough handling on board or on land, or from being out of water for too long. Any number of reasons, and combinations thereof, can cause weak lobster, and all of them add up to massive reduction in yield and ultimately, in profitability.

Yield is measured not only by mortality but also by meat fill/content. It is meat yield that determines which lobsters are "market," to be ultimately served as boiled/steamed dinners, and which are "processor" grade, slated to become any number of product forms. Buyers who seek "market lobsters" want to delight their customers with a lobster bursting with meat; these buyers will pay more for high-yield product. Processors, too, need strong yields. Managing yield is important in any natural resource industry, but in processing lobster, because of the high base prices, maximizing yield is the absolute key to a profitable existence.

There is no single factor more important to future financial success of the industry than improving yield. We believe this profitability leak can be stemmed through industry reform of handling practices.

Seasonality

Some stakeholders voiced interest in shifting the harvest seasons with the objective of realizing more hardshell lobster – and its higher price – in the spring season by limiting summer and fall fishing and essentially leaving these lobsters in the water to grow and harden after their summer molts. We do not recommend adopting this change and advise that the industry maintain its current harvesting season.

Canada harvests hardshell lobster during the winter and spring months; from November through May, the harvest totals nearly 65 million pounds, equaling 60 – 70% of Canada's annual catch. To shift Maine's largest production season to this same period would place tremendous pressure on the market to absorb even more lobster. Adding excess supply to an environment in which supply and demand are nicely balanced (returning Canadian fishermen and marketers strong prices) would cause a disruption that would depress prices paid to all sectors. Further, this shift would leave the processing sector that buys Maine's summer and fall lobster without product, a foolhardy move since the market demand for processed lobster absorbs more than half of all lobster sold.

We understand that GMRI is studying the economics of this approach through modeling, and that initial results of the test suggest there is no benefit to shifting harvest seasons given the current market dynamics.

Handling Reform

During the stakeholder interview process, we identified a number of control points that add to mortality; there is wide variability of practices associated with each:

- On-board storage
 - Crated
 - Live well
 - Duration
- Post-harvest storage
 - Water quality
 - Oxygen levels
 - Contaminant levels
 - Water temperature
 - Ambient temperature
 - Loose or crated
 - Duration
- Transportation
 - Packaging
 - Temperature insulation
 - Shock/impact insulation
 - Ambient temperature
 - Network of tank systems in key transportation hubs

In our research, we identified some potential approaches to handling reform. On-board systems allow for individual separation of lobsters from the crushing weight and shell punctures of one another, and they transfer from the boat to the land offering potential to minimize mortality throughout distribution. Currently, such systems require costly changes to boats' operational layout; this shortfall must be addressed in order to realize adoption. We also learned of new transportation systems that claim to reduce mortality by misting the lobsters with water; other countries' transportation systems employ water-filled tanks. These and other storage and transportation-related approaches must be fully vetted through pilot testing.

Part of handling reform includes harvesting reform. We understand the State is testing the potential of reducing trap limits as a way to reduce harvesting costs. Some initial testing from the Department of Marine Resources shows potential for this approach. We recommend further pilot testing of these initiatives to gain insights on the opportunity.

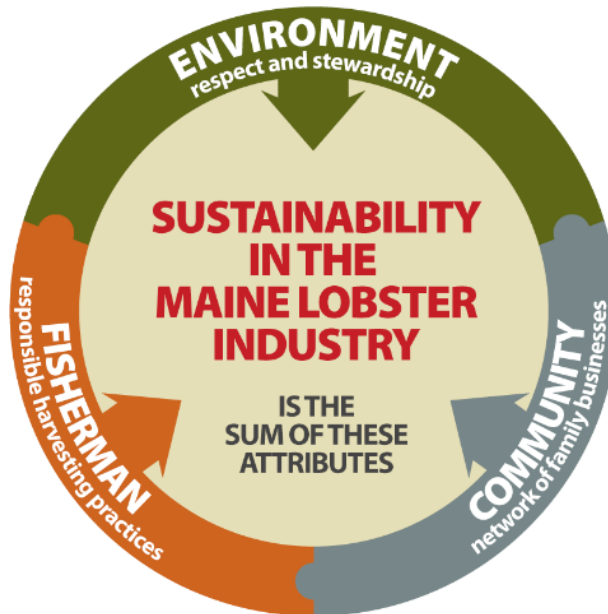
Recommendations: Product Quality Strategy

We recommend a series of "best practices" investigations related to each of these control points designed to identify those with greatest potential for industry-wide adoption, essentially identifying "quick wins." From this initial prioritization, we would then construct processes/technologies/equipment to test the assumptions of the high-potential approaches. The process would then move into a pilot to test the projected impact of the reforms. Each pilot would be measured against its ability to deliver enhanced profitability through mortality reduction.

Sustainability Strategy

Current State

The Maine lobster industry has a long history of conservation practices designed to ensure the sustainability of the resource, the industry, and the way of life. These principles together form the industry's value proposition of sustainability.



The resource is sustainably harvested, as recognized by the Atlantic States Marine Fisheries Commission, the entity with responsibility and authority for setting responsible stewardship practices: the ASMFC coordinates the conservation and management of nearshore fishery resources for sustainable use. Its 2009 stock assessment report indicates record high stock abundance and recruitment in the Gulf of Maine and Georges Bank: the fishery is recognized as being sustainable.

The value proposition of sustainability is a competitive advantage for the Maine lobster industry. Southern New England does not have the same levels of stock abundance and recruitment and is not recognized by ASMFC as sustainable. Canada is not evaluated by the ASMFC, and the stock abundance and recruitment levels in the Canadian fishery are evaluated differently than those in Maine.

The consumer marketplace increasingly cares about “green” products and seeks companies and industries with sustainable practices. As green marketing efforts have grown, so have labeling programs that vet claims of sustainability, acting in essence like a “Good Housekeeping” seal of approval. According to website www.ecolabelling.org, there are more than 450 different green stamps of approval.

Certification programs in the seafood industry seek to evaluate sustainability by requiring adherence to certain guidelines and third party authorization of adherence, yet because none has legal authority to change law or enforce a change in practices, no one program has emerged as the authority. Examples of these programs include Marine Stewardship Certification, Friend of the Sea, and Seafood Trust Certification. In addition to certification programs, there are a number of evaluative programs that offer an opinion on fisheries' sustainability. Many of these programs, often managed by aquariums, have considerable consumer awareness, especially within their geographic region.

There is considerable concern among industry constituents that such labeling programs are used to harness consumer concern for environmental responsibility as a lever to force industry change with costly repercussions. Industry's distrust of eco-labeling can result in proprietary development of yet more programs created to counter existing certification efforts in the marketplace. This dynamic adds to the cacophony of confusing messages. Despite their intent to inform the consumer, the increasing number of programs with their individual branding and messaging efforts, the lack of standards, and the programs' lack of visual design differentiation, may serve to actually confuse the consumer. Further confusion comes in the form of "green-washing" – the existence of overblown claims of sustainability. Consumers simply want a reliable method for making informed choices about products that have an impact on the environment.



It's likely the U.S. government will step in to establish a set of standards designed to ensure reliable, verified information is available to the consumer. The government manages a host of certification and labeling programs, including the USDA's National Organic Program.

The U.S. Federal Trade Commission has begun reviewing guidelines for environmental marketing claims, but the agency often investigates only after products are available for sale. Without up-front government review, consumers can't be sure that eco-labels have been checked and assured for truth in their claims.

Sustainability Strategy Recommendations

Aquarium Programs

We recommend the industry continue its outreach efforts with the aquarium programs, such as Monterey Bay Aquarium's Seafood Watch, New England Aquarium's Sustainable Fisheries Initiative, and Vancouver Aquarium's Ocean Wise. These organizations reach tremendous numbers of consumers who look to them for their local stewardship of the ocean and their stamp of approval would serve as a strong endorsement for the Maine lobster industry.

Certification Programs

Given the likelihood that the government will create a standards and labeling program, we recommend the industry work through its congressional delegation to engage in the development process in Washington. As a starting point, the initiative could be developed out of the U.S. Department of Commerce/National Oceanic and Atmospheric Administration's Fish Watch, a consumer-friendly online database of fisheries management information. International programs may grow out of the FAO.

While the industry could create its own program, we discourage doing so because of the challenges of and limited opportunity for building a brand in a noisy landscape of undifferentiated initiatives. Instead, we recommend that sustainability messaging is included in the industry's brand strategy and that resources are invested in the development of only one brand. (See Brand Strategy section.)

We understand the industry has initiated the process of seeking to obtain certification from the Marine Stewardship Council. While we recognize the value of MSC's messaging to the retail marketplace and to the European market, we do not recommend the industry move forward with certification. The vast majority of lobster is sold through the foodservice channel, and because MSC does not have a foodservice program, nor intent to develop one, the initiative will have limited impact in the industry's most important marketplace. Sustainability is a core tenet of the industry's brand strategy, and messaging must be coordinated and consistent in order to have meaningful impact. There should not be one message (MSC) in the retail channel, and another (yet to be identified/developed) in foodservice. Such an approach has the potential to fragment messaging between the two audiences.

Because MSC does not participate in the largest lobster channel, and because the industry has limited funding to support its brand messaging, we recommend a program that will span both market channels.

Brand Strategy

Current Situation

Homarus Americanus is harvested only in the Atlantic off the shores of New England coastal states and Canada, and the majority of lobster is harvested in Maine and Canada. “Maine Lobster” has become synonymous with the species. Even on the Maine Lobster Council web site authentic Maine lobster is *Homarus Americanus*. Foodservice menus identify the lobster they serve as Maine Lobster, regardless of its origins.

There is clear reason for this. Americans highly value “Maine Lobster.” The MLPC 05 national survey reported that 65% of Americans somewhat or strongly agreed that the “best lobster comes from Maine,” and 30% of these respondents reported that knowing lobster was from Maine would make it more likely they would buy lobster.³

There is industry divergence on what brand strategy will increase economic value and motivate the industry; three perspectives emerged from our interviews:

- *Homarus Americanus* is Maine Lobster
- Atlantic or North Atlantic branding should be developed for the species
- Lobster from Maine is Maine Lobster

Homarus Americanus is Maine Lobster

This perspective is strongly argued by those most involved with consumers—the buyers of volume lobster for chain restaurants and cruise lines. They state that Maine and Canadian lobsters are interchangeable, come from the same waters, and are further intermingled through the export/import cross-border trade. This trade dynamic results in the fact that most Maine lobster becomes a product of Canada by the time it reaches consumer plates. Furthermore, current fishing seasonality makes it impossible to sustain a year-round offering of Maine lobster, either processed or live. These stakeholders acknowledge the power of Maine branding and say it is simply all Maine Lobster. Maine lobster is the preferred, common name for the species, and does not refer to source.

This approach is market driven, and describes the current reality. It is not, however, a brand strategy. Here, any *Homarus Americanus* can be called Maine Lobster because there is neither ownership nor control of the product. Threat of substitution increases and further commoditization of the offering ensues. For proponents of this direction, these are not negative dynamics. Low commodity pricing and available supply are important aspects of delivering a consumer offering with consistent quality. For Maine, these are not negative dynamics – currently. Brand power is awaiting brand strategy and implementation.

³ Maine Lobster Promotion Council, National Consumer Lobster Survey, “Research Report,” April 12, 2005.

North Atlantic or Atlantic branding

North Atlantic or Atlantic branding would also market the species, but with a vision to consolidating Canadian and US marketing dollars to focus on the industry at large. Especially for larger domestic and international dealers/processors who are closest to the symbiotic and mutually beneficial relationship between Canada and the U.S., this strategy leverages today's foundation of trade for further cooperative efforts that could consolidate resources to benefit the whole.

It would require a cooperative agreement and/or entity to build equity and to control messaging, and while there are cooperative international efforts in fisheries in the EU, country interests generally increase complexity and the threshold for success. As a result, this approach is likely to take the most time to generate tangible returns to the industry, requiring both a shift in current market perceptions as well as development of new avenues for commerce and cooperation.

Maine Lobster from Maine

There is a market perception that Maine Lobster is the best lobster and our interviews evidenced strong industry support to leverage this equity to build a Maine Lobster brand, especially in Maine. A strong Maine Lobster brand would best infuse industry participants—and residents of the state—with shared pride in the product they catch, distribute and process, while providing the market with the product they value most highly.

To effectively compete, however, beyond a specialty niche product status, investments will be required in order to:

- Deliver adequate and consistent supply to capture and sustain key markets
- Develop and communicate a coherent, experiential brand message
- Enforce and control quality and brand integrity, and curb the threat of substitution

We foresee supply improvements becoming increasingly attractive for investment as an experiential brand gains market traction and consumer awareness creates new value; planning for both needs to start right away for one to support the other in the years ahead.

Competitive Dynamic



Canada is starting to build differentiation and advantage for its lobster. While the nascent campaign and positioning of Lobster Canada will take time and investment to build recognition and preference, the Canadians currently have significant advantage in their ability to supply the market, and their lobster brand strategy directly challenges the market value and perceptions associated with Maine Lobster.

They question the name's link with the state of Maine:

"Canadian Atlantic Lobster is known by many names including: Atlantic Lobster, American Lobster, Canadian Reds, Northern Lobster and Maine Lobster but no matter what you call it, once you've tasted our lobster you will know why it is King."⁴

They challenge the value of Maine's famously succulent soft-shell lobsters:

"The hard-shelled difference..." The seasons for harvesting lobster in Canada are staggered to protect the vulnerable summer moults. While this is a good conservation measure it also ensures that consumers get the tastier, meatier more nutritious lobster that has become a favorite everywhere."

They invoke icy waters, rugged shoreline, and harvester lifestyle that sounds very familiar:

"Canadian Atlantic Lobsters are harvested in the cold pristine waters along the rugged north Atlantic coast of Canada. They are harvested from the icy salt water the same way they have for generations, in traps attached to lines hauled one at a time."

They describe their environmental practices to ensure its sustainability

"Since the lobster industry in Canada is based on an integrated fisheries management approach, it ensures that harvesting and processing methods are conducted in an ecologically responsible manner. When you eat Canadian

⁴ <http://www.tastelobster.ca>

Atlantic Lobster you can be assured the lobster is both good for you and that the harvesting method is good for the environment.”

And, they describe the speed and efficiency with which the harvest is transported for live distribution or processing:

“Lobsters that are to be sold live will be sent to holding facilities while those being processed are briefly stored in refrigeration units until they are cooked or processed for raw meat products, usually the same night they were caught. . . .”

Maine has historical and/or current advantage in all of these points of differentiation, but lacks a distinct voice and personality.

Recommendation: Maine Lobster from Maine

We do not see near-term potential for launching a new brand of North Atlantic Lobster.

We do not see long-term potential for calling all *Homarus Americanus* Maine Lobster, but for the near-term, there should be no change in the current practice of calling the species Maine Lobster as there is power in owning the category of competition. Controlling the brand, however, will require that the industry define and develop the infrastructure improvements that will address market demand for quality and consistent supply. Until this is achieved, for retailers and foodservice providers, as long as it's *Homarus Americanus*, it's Maine Lobster. But like Kleenex, another big brand that owns its category, without innovation and an evolving, sustained relationship with consumers, the brand will be further commoditized. Maine Lobster clearly needs to reconnect the consumer to the equities it owns and to the advantages it delivers.

We recommend a re-invigorization of Maine Lobster from Maine.

The Maine Lobster brand story is deep and specific with experiential and emotional equities requiring support and communication. Strategic brand cornerstones include:

- Maine coastal villages and communities
 - o This is particularly rich subject matter that may contribute a “causal” benefit for those who enjoy Maine lobster, as it directly contributes to sustaining families and fishing communities.
 - The stories and lives of families and generations of families
 - The entrepreneurial spirit of the lobster men and women
- Environmental sustainability and species protection
 - o The care of the harvester to protect the species and to ensure the longevity of the industry and diversity of the oceans—a full-circle benefit impact
 - Specific sustainable practices with particular focus on advantages over other fisheries such as:
 - Larger minimum sized lobsters than those captured elsewhere: “you’ll never buy a lobster with a tail less than

- three ounces to ensure they have time to breed for sustaining generations of lobsters”
 - Protection of breeding stocks of largest lobsters: “you’ll never buy a 5 pound lobster from Maine waters, because we leave these hearty survivors of the ocean to breed strong and vital stock”
- Superior quality and taste
 - The world’s finest lobster
- Direct connection to the celebrations in life, social and shared
 - Times with loved ones, celebratory occasions, and rich memories
- Eating fun/enjoyment
 - Involving, messy, rewarding rituals such as “saving the best for last”
- Types
 - Range of shell types, taste qualities, dining experiences
 - Rugged hard shell
 - Soft shell, succulent — the harvest Beaujolais
 - Harbor or water specific differences
- Ocean habitat: Gulf of Maine waters and the unique characteristics of water, currents, weather, shorelines, bottoms

Individual market segments will be more compelled by certain attributes and messages than others. We recommend consumer research is conducted to test specific communications messages and refine marketing campaigns.

As an example, we expect harbor-specific sub-branding may be a key opportunity to bring consumers closer to the essential lobster experience and provide certain segments of the market with economic value. For example, McCormick & Schmidt’s, an 86-unit restaurant chain, lists the *specific* source of all fresh seafood on its menu and website to demonstrate this link from the ocean to plate (e.g. *Pemaquid Maine Oysters*, *Boothbay Harbor Maine Lobster*). This approach holds potential because it builds the brand hierarchy from its essence: Maine community, sustainability/sourcing, and distinct quality/flavor. Harbor-specific branding initiatives will require careful and targeted marketing efforts to identify those buyers who are motivated by such attributes, and the execution of this approach will likely require delivery of specific product attributes. Today, any lobster is a “Maine Lobster,” but in this scenario, a “Boothbay Harbor Maine Lobster” will provide distinctly different attributes to the marketplace and these attributes must be delivered on a consistent basis. The delivery of such distinct characteristics holds vast potential for those marketers who master the alignment of market/buyer with distinct product attributes conveyed through this approach.

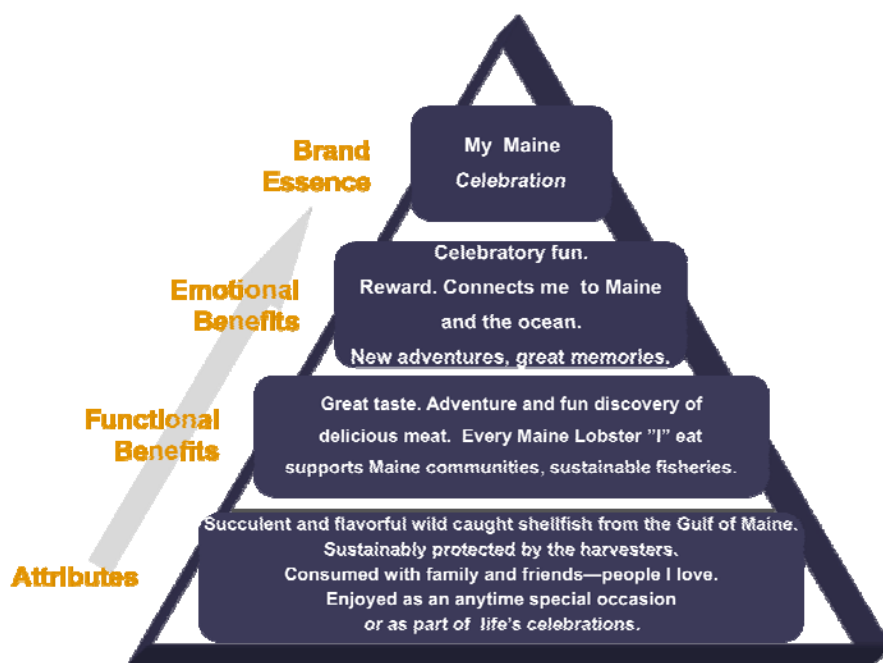
There are significant opportunities to further evolve these stories through best practices and innovation, and these are likely to be progressively evolving stories as infrastructure requirements to support and supply the market are developed.

Developing & Communicating the Maine Lobster Brand

Qualitative consumer research should be conducted to inform the brand development process. By understanding the perspectives of the most invested and engaged consumers (lovers of Maine lobster—the Traditionalists, Adventurers, Convenient Lobster Lovers), we can communicate the emotional content that is core and authentic to the consumer relationship with Maine Lobster. The objective will be to fully understand and document the complex and strong emotional feelings these consumers have for Maine lobster, the equities that need to be cultivated, and the liabilities that need to be addressed. With a better understanding of the experiences behind consumers' immediate preference for and value perception of Maine lobster, we can develop, test and refine compelling marketing messages.

Following consumer research, we advise the development of a brand equity hierarchy, including attributes, functional benefits, emotional benefits, brand essence, and brand personality of “Maine Lobster.” This process will define the distinctive benefits that can be leveraged to provide relevant engagement with the consumer audience.

The brand pyramid below is a preliminary view of brand personality and would be informed by consumer research to construct an accurate perspective. This tool is tremendously useful in simplifying targeted communications efforts.



The development of communication and marketing strategy follow brand personality development. This process includes the creation of communication tools, web, and marketing and merchandising materials to communicate the strategy to the market—across foodservice and retail touchpoints.

Management Entity—Marketing & Research

Background

Multiple entities support the lobster industry in Maine, and value creation is largely driven by three groups:



Multiple supporting entities provide promotion, research, and advocacy for the industry:



While some of these groups exist to serve the industry in multiple capacities, we heard from stakeholders that the number of organizations and groups fragment the potential for focused support to the lobster industry and prevent best practices from being widely implemented. Specifically, we heard they:

- Compete for limited funding
- Do not share information or pool resources
- Undertake activities that duplicate or overlap concurrent activities by another organization
- Pursue activities that may not have relevancy to the need of the industry or markets it serves
- Provide findings not considered credible to industry constituents

Objectives for these organizations are remarkably similar, as are good intentions, yet time, effort, and cost are expended without commensurate positive impact on the industry. This is the key motivating factor behind the development of a strategically driven entity—to harness funding and align and consolidate effort to provide measurable benefit to all stakeholders.

Mission & Objectives

The mission of the entity is to increase the economic value of the Maine resource and ensure the long-term sustainability of a stable lobster industry in the State of Maine.

Objectives are to bring maximum return and benefit to industry participants and the State of Maine by:

- Aligning marketing activities for maximum impact within the food industry
- Aligning scientific research to provide fact-based data to:
 - Protect and ensure the sustainability of the species
 - Inform decision-making about current harvesting and future harvest periods
- Conducting market research to enhance consumer relationships, to better understand existing and new markets, and to define innovations to better serve the food industry
- Developing long-term proactive planning
- Providing industry analysis, education, and advocacy
- Raising funds and prioritizing expenditures based on highest value, highest return for the industry

Functional Areas

At our April 9 public meeting, the industry reviewed initial findings and determined that the organization should be comprised of three functional areas:



The Executive Director, a professional manager, would oversee and coordinate marketing and scientific research and be responsible for:

- Providing leadership to the industry
- Increasing value and market demand for Maine Lobster
- Aligning and focusing scientific research to ensure the sustainability and health of the resource
- Industry outreach and communication:
 - Knowledge development and dissemination
 - Regularly seek major stakeholder input through operational and advisory committees
- Legislative advocacy and coordination
- Legal: trademark registrations, quality seal development, reduce substitution
- Funding acquisition and fiscal management

The Marketing area would be responsible for:

- Strategic marketing for foodservice, retail, and international segments
- Development of market-oriented quality specifications
- Development of channel, chain customer, and regional marketing strategies
- Communication strategy and execution
 - Advertising
 - Science and sustainability
 - Quality specifications for Maine Lobster
 - Consumer education
 - Culinary/chef outreach and education
 - Sales promotion
- Consumer, channel market research
 - Defining target audiences, markets, innovations, technology, processes, products or by-products that may benefit the industry
 - Future orientation of competitors and competitor behavior

The Science area would be responsible for:

- Developing strategic vision for the role of scientific investigation in the industry and aligning the industry around that vision
 - Science-based management
 - Stock projections linked to market strategy
- Contracting for and coordinating scientific research to identify and prioritize methods, processes
 - To ensure the health and well-being of the lobster population in the Gulf of Maine
 - To reduce mortality from harvest to plate
 - To assure quality and food safety
 - To develop and explore benefits or other uses of lobster harvested in the state
- Explore coordinated scientific research with Canada, other coastal NE states
- Ensure clear communication of findings, scientific developments, and implications for the industry

This entity does not serve any individual industry group, but the industry as a whole—including the coastal communities and businesses, large and small, that benefit from Maine’s renewable resource. Each functional role has a significant responsibility to provide vision, leadership, and results that stimulate growth and maximize return on investment for the State of Maine.

Governance Structure: Public – Private

Economies of effort and cost as well as speed to attain results will best be achieved through a public-private structure that partners this organization with the State of Maine as an independent instrumentality of the state.

Benefits of this cooperative partnership include access to and inclusion of the congressional delegates as advocates for federal program and funding support, solid partnering with the Governor’s office, the Department of Economic and Community Development, the Department of Marine Resources, access to legal services through the Attorney General’s Office, as well as maintaining close relationships with agencies who have responsibilities to the lobster industry. The lobster industry needs an independent voice to meet the needs of its constituents, while growing the direct and induced economic output to the state.

Good governance starts with the board of directors. We recommend the board have 12 members (9 voting members, 3 non-voting), and we recommend 6 of these representatives be elected or appointed as follows: 2 harvesters, 2 dealers, 1 processor, 1 scientist, and 4 non-industry CEO (or CEO direct report) level appointees. Three non-voting members would also be included from State government.

This board would elect its chairman and officers, and the executive director would be hired by and report to the board.

This structure ensures that the voice and needs of the industry are served by this entity. Additionally, we recommend the creation of volunteer industry committees that are appointed by the board to provide support to the institute in consolidating opinion, reaching consensus, and identifying solutions and opportunities. The Alaska Seafood Marketing Institute employs a similar approach.

Alternate structures were considered in this analysis but none offered similar infrastructure support, potential access to federal and state support, and promise to deliver results in the near-term.

Among the structures we considered was the cooperative model. We do not recommend this model for the Maine lobster industry, a collective of the existing co-ops, in the near-term. The primary driver for the formation of successful co-ops is industry recognition of the need to deliver value-addition to the marketplace. For all constituents in the Maine lobster industry, it is the market force of Buyer Power that truly grinds down profitability; without differentiation and value-addition, this dynamic will continue. Industry constituents must align themselves to support significant enhancements on a number of different fronts, from product (competitive mix, quality improvements, yield enhancements, innovative product development/commercialization through functional nutrition) to brand (protection against imposter lobster, integrity for the distinction of Maine Lobster from Maine, experiential positioning) to supply/distribution (delivery of adequate and consistent product to capture and sustain key markets). Creating an organization whose function is to prioritize, direct and implement initiatives such as these will serve as the mechanism to deliver value addition and differentiation, which will diminish the market force of Buyer Power and improve profitability.

Further, we do not recommend the establishment of a “super co-op” because of the vast rivalry between industry constituents. Currently, constituents distrust so intently one another that they entirely neglect the reason for the erosion of profit, which is Buyer Power. The creation of a harvester-only organization would further this rivalry, signaling lack of understanding for and dismissal of the dealer network's current function. The importance of the dealer network cannot be underestimated as the connection to the marketplace, serviced by the employment of more than 15,000 jobs.

There may, however, be opportunity in the near term to deliver on a harbor-specific product/brand strategy through a marketing agreement and closer integration between dealers and harvesters to market directly to consumers.

Once the entity is delivering on all cylinders of product, brand, and supply, and when rivalry is markedly diminished through shared focus on strategic opportunity that recognizes all constituents' functions and roles, it may identify profit potential through the piloting and launch of a co-op model that delivers specific needs to specific sectors of the marketplace, as may be identified through market research.

The Role of Existing Support Entities

As the entity takes shape, existing entities will be looking to see how they may be utilized and what impact it will have on them. For many, we expect a symbiotic relationship through committee work, providing contracted research. In a few cases, there may be opportunity to consolidate organizations. These decisions need to be made by the MLI board and the industry.

Our observations include potential for:

- A close partnership with the University of Maine
 - University of Maine can offer the organization access, if not programmatic partnering, with the Maine Business School, Foster Student Innovation Center, and the Darling Marine Center to the benefit of both institutions
- Lobster Institute as partner for outreach to Canada, other states
 - The current Lobster Institute's focus on the North Atlantic species, and their continuing outreach to Canada, may be a resource for international and inter-state discussions and programs that are likely to benefit the scientific investigations of the Maine Lobster Institute. There is good foundation in their CORE program (Conservation, Outreach Research, and Education initiative).
- Research organizations as committee participants and contractors for the research
 - Scientific investigations related to the lobster industry would be aligned and coordinated by the entity, and committees would work inclusively to integrate the work currently conducted by other organizations. It is likely that as investigations are prioritized, they may be funded and resourced through existing organizations with the objective of consolidating state and federal funding for increased depth, capability, and impact.
- The Maine Lobster Promotion Council as marketing function
 - The MLPC could comprise the marketing area of the entity, but we expect the new organization to have a much greater presence both in the state and in the food industry than the MLPC, which was created to provide marketing to the industry with the "most cost-effective use of a limited promotional budget." This industry, and its contribution to the state of Maine, warrants a much more sizeable investment for effective, responsible, and cost-effective support.
- We anticipate that current advocacy groups will be engaged by the entity through its committees and will participate through representation on the board.

We suggest naming the entity "Maine Lobster Institute" to harness the benefits of the brand and to establish the science as the driver for the strategic organization.

Funding, Investment & Return

The strategic management and direction of research and marketing initiatives for the industry will require significant funding levels. During stakeholder interviews, we heard support for enhancing constituent-funded financial support, as well as for sourcing funds from other agencies as is routinely practiced in other domestic fisheries. We have developed two budgets, below, with different levels of industry support and agency support.

We recommend employing a funding management tool that affords budget flexibility by adjusting the per-pound assessment. For example, one year the industry may elect to collect \$.05/pound while the next year it may decide to assess \$.07/pound. The Alaska Seafood Marketing Institute follows a similar process.

Funding sources may include:

- NOAA, which has been a significant contributor to Wild American Shrimp, another domestic industry that struggles with substitution
- Market Access Program (MAP) from the U.S. Department of Agriculture, which funds the Alaska Seafood Marketing Institute more than \$4 million annually
- Development of Maine lobster conservation brand of consumer products/souvenirs targeted for sale to the tourism market: “your purchase of this t-shirt supports the Maine lobster industry’s conservation efforts”
- State Grants and Program Funds
- Public/Private Research Foundations
 - Pew Charitable Trust, Slow Money

Budget A includes the following sources of funds:

- Industry assessment of \$.05 per pound, to be collected via the first handling station.
- NOAA, which has been a significant contributor to Wild American Shrimp, another domestic industry that struggles with substitution
- Market Access Program (MAP) from the U.S. Department of Agriculture, which funds the Alaska Seafood Marketing Institute more than \$4 million annually
- Development of Maine lobster conservation brand of consumer products/souvenirs targeted for sale to the tourism market: “your purchase of this t-shirt supports the Maine lobster industry’s conservation efforts”

With this level of investment, the industry should expect to see meaningful returns in the way of boat price, wholesale price, and brand equity. We estimate conservative returns of 5 – 8% in the initial years, delivering \$15 – 20 million in boat price.

MAINE LOBSTER COUNCIL PROJECTED INCOME & EXPENDITURES					
INCOME	YEAR ONE	YEAR TWO	YEAR THREE	YEAR FOUR	YEAR FIVE
Industry Assessment	\$3,500,000	\$3,500,000	\$3,500,000	\$3,500,000	\$3,500,000
NOAA/Other	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
MAP Funding	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000
Sales of Conservation Products	\$0	\$250,000	\$350,000	\$500,000	\$750,000
TOTAL INCOME	\$7,500,000	\$7,750,000	\$7,850,000	\$8,000,000	\$8,250,000
EXPENDITURES					
Consumer	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,750,000
Foodservice	\$750,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Retail	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000
International	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000
Public Relations	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Research	\$1,500,000	\$1,500,000	\$1,600,000	\$1,750,000	\$1,750,000
TOTAL EXPENDITURES	\$7,500,000	\$7,750,000	\$7,850,000	\$8,000,000	\$8,250,000

Budget B includes the following sources of funds:

- Industry assessment of \$.10 per pound, to be collected via first handling station
- NOAA
- Market Access Program (MAP) from the U.S. Department of Agriculture
- Development of Maine lobster conservation brand of consumer products/souvenirs

With this level of investment, the industry should expect to see stronger value increases, which we estimate in the range of 12 – 17% in the initial years, equating to \$30 – 45 million in boat price.

MAINE LOBSTER COUNCIL PROJECTED INCOME & EXPENDITURES					
INCOME	YEAR ONE	YEAR TWO	YEAR THREE	YEAR FOUR	YEAR FIVE
Industry Assessment	\$7,000,000	\$7,000,000	\$7,000,000	\$7,000,000	\$7,000,000
NOAA/Other	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000
MAP Funding	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000
Sales of Conservation Products	\$0	\$250,000	\$350,000	\$500,000	\$750,000
TOTAL INCOME	\$11,000,000	\$11,250,000	\$11,350,000	\$11,500,000	\$11,750,000
EXPENDITURES					
Consumer	\$2,750,000	\$2,750,000	\$2,750,000	\$2,750,000	\$2,750,000
Foodservice	\$1,250,000	\$1,250,000	\$1,500,000	\$1,500,000	\$1,500,000
Retail	\$1,250,000	\$1,250,000	\$1,250,000	\$1,400,000	\$1,500,000
International	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000
Public Relations	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Research	\$2,750,000	\$2,750,000	\$2,850,000	\$2,850,000	\$3,000,000
TOTAL EXPENDITURES	\$11,000,000	\$11,000,000	\$11,350,000	\$11,500,000	\$11,750,000

Phase Three: Implementation of Recommendations

STAGE ONE: Q2 – Q4 2009

Task Force Continuation & Expansion

We recommend the continuation and expansion of the task force to serve in the role of evaluating and directing strategic initiatives toward a new model of economic sustainability for the industry. We recommend the expansion of the task force to include industry members: a harvester representative from Downeast Lobstermen's Association, Maine Lobstermen's Association, and midcoast; a Maine processor; and a dealer/marketer representative to the local marketplace, the regional marketplace, the national/international marketplace.

This summer, we recommend the task force focus its energies on two initiatives: the short-term market conditions, and industry outreach to gain input and support for the new entity and proposed longer-term initiatives.

Short-Term Market Conditions

Last year's \$50M+ revenue loss requires a serious, concerted effort to ensure consumer demand improves. We recommend a substantial budget of \$2 million in spending this summer and fall, to maintain and build strong demand in regional markets. The objective of the campaign is to stabilize pricing during peak harvest, August through November. Last year's boat price during this period was \$3.16, down from \$4.19 in 2007 and \$3.87 in 2006.

This allocation would begin in June and continue through November.

- In-Store Retail Promotions: \$500K
- Advertising: \$1.5M
- Public Relations: \$100K
- Culinary Development: \$100K

Industry Outreach

We recommend outreach to the industry through individual and small group meetings, along the coast to gain insight, direction and support for the longer-term initiatives. The development of a report from these meetings would then inform the strategic and tactical initiatives, and the development of the new entity's charter. (See attached Alaska Seafood Marketing Institute charter.)

New Entity Formation

The formation of the new entity will require legislative effort, board creation, and staff hiring. We have slated execution of these elements for Q1 2010.

STAGE TWO: Q3 & Q4 2009 – 2010

Competitive Product Strategy Recommendations

- Review & redraft of “mutilation” and “possession” laws.
- Investigate storage technology improvement/development.
- Properly define lobster vs. “imposter lobster” through truth in labeling at state & federal levels.
- Conduct consumer awareness campaign related to imposter lobster.
- Construct comprehensive finance strategy to support innovation and entrepreneurship.

Product Quality Strategy Recommendation

- Investigate control points of on-board storage, post-harvest storage, and transportation for identification of high opportunity reform.

Sustainability Strategy Recommendation

- Conduct outreach efforts with aquarium programs

Brand Strategy Recommendations

- Conduct consumer research
- Conduct communications testing/piloting
- Develop communications strategy

ADDENDUM: Media

Thursday, April 23, 2009

THE WALL STREET JOURNAL. | PERSONAL FINANCE

APRIL 23, 2009

Recipe for Success

What's on David Burke's fine-dining menu? A lot of in-your-face discounts.

By [KATY MCLAUGHLIN](#)

Chef and restaurateur David Burke's business sounds like a financial-crisis perfect storm. Consider:

His restaurants are mainly in hard-hit areas including Manhattan's Upper East Side and Las Vegas. Mr. Burke has no experience owning restaurants in a down economy; he launched his empire during restaurant boom times, starting in 2003. And the \$7 billion fine-dining industry will see a 12% to 15% drop in sales this year, according to Technomic, a Chicago restaurant industry consultant.

The Journal Report

See the complete [Weathering the Storm](#) report.

And yet...Mr. Burke reports overall growth, some of his restaurants are booked to capacity on some evenings, and restaurant-industry analysts say he is one of the few high-end players with the right idea for the times.

How could this be? Mr. Burke, it seems, has figured out a way to navigate the downturn. His strategy is to throw out the high-end-dining playbook that says discounting should be subtle. Instead, he is offering dramatic, attention-getting and significant discounts. By engineering the menu carefully and keeping labor costs in check, he is able to slash prices without losing money, he says.

His promotions have included \$20.09 three-course meals with items such as oysters and lobster at many of his upscale restaurants, including two in Manhattan (where, without discounts, entrees run \$29 to \$44), and \$5 burgers and milkshakes at his Chicago steakhouse (where a 14-ounce sirloin is \$48 on the regular menu). On one menu, he crossed out prices of wine and listed new prices with the term "sale" -- a rarely seen word in fancy restaurants.



TRY IT! David Burke's promotions include a wine auction and \$20.09 three-course meals

One of his most unusual promotions is the Wine Auction at the tony David Burke Townhouse in Manhattan. Diners are handed a list of high-end wines with prices ranging from \$200 to \$600 struck out with red ink. The sommelier approaches the table, suggests that diners make him an offer and begins a negotiation. Wine director Bruce Yung says he sells an average of five bottles a night, meeting his reserve price or better.

"It's worth a shot," says Mr. Burke of his unorthodox approach to selling fine wine. "I'm sitting on close to \$200,000 worth of wine anyway, already paid for."

The D Word

Discounting is a strategy high-end restaurateurs have traditionally avoided or carried out in subtle ways, out of fear of eroding the cache of their brands. But this winter and spring, an unprecedented number of fine-dining restaurants slashed their prices.

Mr. Burke tries to set his restaurants apart from other bargains being offered mainly by making his discounts as drastic, easy-to-grasp and catchy as those of one of the few restaurants doing well these days: McDonald's.

"I have teenage kids who go to McDonald's for a dollar meal," Mr. Burke says. The snappy ring to that promotion inspired him to come up with a high-end equivalent. "I see that it's working for them at a buck, so it might work for me at \$20," Mr. Burke says.

Starting in January, he rolled out \$20.09 meals on Sunday nights at David Burke Townhouse and Fishtail in Manhattan, and at David Burke Fromagerie in Rumson, N.J. At Primehouse, in Chicago, he offers the \$20.09 deal for lunch six days a week, excluding Sunday. At David Burke at Bloomingdale's, in Manhattan, he serves a \$20.09 dinner every night of the week. For a \$5 supplement, diners can have a one-pound lobster or filet mignon entrée.

Last year, DB Global, Mr. Burke's New York-based company, had \$35 million in revenue, and for this year he predicts \$45 million. Like many multi-unit operators, he reports that his less-expensive restaurants are

doing well this year. For instance, David Burke at Bloomingdale's, which has both a sit-down restaurant and a Burke in the Box take-out area, is up 2% over last year. Sales at all three Burke in the Box restaurants -- the others are at McCarran International Airport in Las Vegas, and Foxwoods Resort Casino in Connecticut -- are up from last year.

Still, even his high-end restaurants, while taking a hit, are doing better than many of their high-end competitors: Primehouse had a 2% decline in sales in the last quarter of 2008 and beginning of this year, compared with the prior year; Fromagerie is down 5%, and David Burke Townhouse in New York City saw an 8% sales drop. Across Manhattan, meanwhile, fine-dining operators are reporting sales declines of around 15%, and some celebrated restaurants, including Fiamma, a highly praised Italian eatery in the same price range as Mr. Burke's fanciest restaurants, recently closed.

Some of the impact of Mr. Burke's discounting is measurable: The Sunday discount dinner at Townhouse in Manhattan turned a night that typically grossed \$5,250 into a \$12,750 night, Mr. Burke says. There are softer benefits, too, such as increased goodwill, publicity, and customers who discover the restaurants and return on full-price nights, Mr. Burke says.

Internal Breeding

Mr. Burke is somewhat insulated from the risk of besmirching his high-end image with discounts because of his unique public persona, says Ed Levine, founder of the food blog SeriousEats.com. "David Burke is the master of the culinary grand gesture, so this is perfectly in keeping with his brand," Mr. Levine says. Mr. Burke now has "pricing gimmicks" that link up with other gimmicks he's used over the years, Mr. Levine says. Mr. Burke, for example, bought his own breeding bull to sire the beef cattle used at Primehouse. He also lines his beef-aging cave with Himalayan rock salt, which he sells for \$29.99 for a two-pound box.

Discounting, if done too often for too long by too many players, can erode pricing power in the long term, says Dennis Lombardi, executive vice president of WD Partners, a restaurant and retail consultant in Dublin, Ohio. Citing one example, "customers have been trained to expect to buy pizza at a discount," because of all the coupons and deals, Mr. Lombardi says.

Mr. Burke says that by limiting most of his discounts to Sunday and varying the deals, he avoids such expectations.

Less Bass

With careful planning, Mr. Burke says he is able to keep food costs on his discounted menus at about 45% of the menu price, which is higher than the traditional 35% most fine-dining restaurants aim for but still enables him to earn a profit, because people tend to order more drinks when they are paying less for food. He sprinkles in luxurious ingredients, though some, such as dry-aged beef or black bass, are served in smaller portions than on the a la carte menu. He caught a break this winter when the wholesale prices he was paying for lobster fell to about \$5 a pound, from a norm of \$7.50, enabling him to include on the discounted menu items such as lobster carbonara and half an "angry lobster," a spicy signature dish.

Stephen Hanson, a New York-based restaurateur who manages operations for the Chicago hotel where Primehouse is located and who helped devise the concept for the restaurant, disagrees with the discounting approach. Mr. Hanson says he fears that the customer will think, "Were you gouging me beforehand?" But Mr. Hanson, whose company, New York-based B.R. Guest Restaurants, owns 14 other restaurants in New York and Las Vegas, says he is content to let Mr. Burke, whom he calls "a marketing genius," decide the menu pricing.

During a weeklong promotion in October at Primehouse in which Mr. Burke sold normally \$12 burgers for \$5, the restaurant made money, Mr. Burke says. Serving lunch to 30 to 40 people on an ordinary day yields about \$8,000 per week. During the promotion, the restaurant served 300 lunches a day, Mr. Burke says, for a weekly lunch take of \$30,000. While food costs were higher, because more was served, labor costs stayed almost the same, because waiters at the restaurant make most of their wages through tips and the kitchen required only two extra line cooks, who make \$15 an hour, he says.

In addition to discounting, DB Global is reducing labor costs. Every week the company analyzes how many bookings have been made at each restaurant and looks at past history to determine how busy it will be. Then it pares or increases hourly staff -- about 70% of all employees -- accordingly. In winter, about a dozen cooks usually return to their home countries, including Mexico, India and France, for six weeks of unpaid vacation; this year, Mr. Burke encouraged them to take two or three months off. Because his three Manhattan restaurants are in close proximity, he also moves staff from less-busy to fuller restaurants and asks them to multitask. For example, the company butcher now also makes ravioli and crab cakes.

DB Global also focuses on retaining every potential customer. On a recent Tuesday, Fishtail was too full to accommodate more patrons. Mr. Burke instructed the Fishtail hostess to send patrons to nearby David Burke Townhouse, promising a free drink would be waiting. Out of 20 potential guests, 18 took the offer, Mr. Burke says.

—Ms. McLaughlin is a staff reporter for The Wall Street Journal in Los Angeles.

From Frisée to Finance, It Has to Be Perfect



Daniel Boulud is known for his sumptuous menus and seamless service.

By [DAVID SEGAL](#)

Published: May 16, 2009

IN the middle of the kitchen at Daniel, a four-star restaurant on the Upper East Side, a set of steep stairs leads to a cozy little nook known as the skybox. It has one lacquered-wood table, room for four diners, a television and two large windows overlooking the action below. The space feels like the eating quarters of a yacht set in a tree house.

The skybox is available to customers by special request, but on a recent afternoon, the chef and co-owner [Daniel Boulud](#) is sitting here in a white, double-breasted chef's coat, ready for the latest round of taste tests for a restaurant called DBGB. His first foray into casual fare and his 10th restaurant, it is slated to open on the Lower East Side in about two weeks.

First up is a small dish of escargot and [tomatoes](#) topped with a puff pastry, which is set before him by Jim Leiken, 34, who will be in charge of DBGB's kitchen.

"Did you hear the music?" Mr. Boulud asks as he studies the plate and grabs some silverware.

“Yeah, it sizzled,” Mr. Leiken replies.

Mr. Boulud chews for a moment, and then there is silence.

“I’m still not convinced,” he finally says, speaking with the sort of French accent that sounds authoritative in any discussion of flavor. “I mean, I love escargot and garlic, and all that. But I’m still thinking of doing a custard on the bottom and then a purée of escargot and then the puff pastry so you have almost a reverse tart.”



Mr. Boulud, second from left in foreground, is trying to balance thrift and quality for this site, his 10th restaurant.

Known for his sumptuous menus and seamless service, Mr. Boulud — the name, brain and palate behind one of the country’s gold-plated dining empires — has already taken a bow for just about every round of applause that the industry has to offer. With the Dinex Group, a management company he co-founded, he and a team of managers and accountants oversee an operation with more than 900 employees in markets as far-flung as Beijing and Vancouver.

They have not misfired yet, but Mr. Boulud and his cadre might be trying their trickiest maneuver to date, creating DBGB at a moment that is smiling on fast food and little else. In this environment, you could forgive the man for cutting a few corners, or scaling back his ambitions.

But during Round 8 of recipe tests, on Tuesday, he refuses to grade on the curve. He stoically appraises entrees and appetizers in what feels like a marathon episode of “Top Chef” — except that this judge has helped conceive the dishes and never seems very pleased by the results.

The lamb ribs confit with roasted lamb leg and spring beans? “Maybe a little more herbs in it,” he suggests. The Maryland lump crab cake with a curry sauce and pickled radish? “More crab, less garnish.” The passion fruit crepe with mango slices? “We’re still not there.”

We sit across from Mr. Boulud, shamelessly pillaging the leftovers and thinking: huh? Each dish seems head-spinningly yummy, but Mr. Boulud summons enthusiasm only when he tries a sausage called the Vermonter, and he cracks a smile only after a forkful of beer-battered haddock beignets.

“I think it’s good,” he says, like a man enjoying a guilty pleasure.

A SELF-DESCRIBED “psycho” when it comes to details, Mr. Boulud, 54, had planned a Paris-meets-Texas diner before anyone had heard of [credit-default swaps](#). The concept evolved a little, but not the

price point. Homemade sausages and hamburgers will be the centerpiece at DBGB, and the average bill for a three-course meal will come to about \$32, the price of an appetizer at Daniel, his flagship.

He brings to this enterprise something like home-field advantage, opening in the city that made him a culinary star. With that comes buzz; nearly every week, news about some element of the layout, design and construction of DBGB pops up on the most trafficked restaurant blogs in Manhattan.

But by Dinex Group's own calculations, DBGB must generate \$4.5 million a year in revenue to be profitable, not easy in a time that a spokesman for the National Restaurant Association called "the most challenging the restaurant industry has seen in several decades." A consumer marketing firm, NPD, issued a report a few weeks back stating that national restaurant traffic had dropped for a second consecutive quarter.

"And there will be at least one more down quarter, maybe two," says Harry Balzer, an NPD vice president.

In New York City, it's been ugly at nearly all price levels.

"Does the word 'bloodbath' meaning anything to you?" asks Clark Wolf, a Manhattan restaurant consultant. "The fact is that if you built your restaurant business on all these Wall Street guys getting ridiculous bonuses selling stuff that turned out to be worth nothing, your business is in trouble."



More than a few well-regarded New York restaurants, like Fleur de Sel and Bar Q, have closed in recent months, and many others are gasping. Gone are the days of private-room parties for 30 people, at \$80 a head, with a few \$1,500 bottles of wine.

Mr. Boulud isn't the first to try to extend a gourmet brand from the high end to the affordable. He is hardly the most daring of those brand-extending chefs, either; his dishes are contemporary spins on French food, which he translates for Americans using ingredients rarely used in France, like Meyer lemons and [risotto](#).

But nobody expects trailblazing invention from him, the sort associated with other French maestros. What distinguishes Mr. Boulud from his peers is that he emphasizes both hospitality and cooking.

"Daniel's gift is that he's actually interested in the people who are eating his food," Mr. Wolf says. "It's about his customers instead of his ego."

IN late April, DBGB is a clamorous construction site near the corner of the Bowery and Houston Street on the ground floor of a new apartment building. You need to look under the plastic wrap that covers all the kitchen equipment to guess that a restaurant is being fabricated here. The dining room is a vast, concrete expanse. Men are drilling holes in the wall and ceiling, cutting sheets of metal, taking measurements. The leather banquettes are weeks from arrival, and there is still

Thomas Schlessner, Design Bureaux

Even the layout of Daniel Boulud's newest venture, DBGB on the Bowery, sets Manhattan restaurant blogs abuzz.

discussion about the design of the bar stools.

“It’s always like this,” says Dorothy Hom, who works for the company contracted to build DBGB. “It doesn’t look like a restaurant until right before you open the doors.”

Despite the name, which nods to [CBGB](#), the famous punk rock club a block to the north, the restaurant’s design pays tribute to the area’s history as the restaurant supply center of New York. The walls will be lined with shelves and stocked with glasses and plates as well as pots and pans donated by great chefs from around the world. The kitchen is on the other side of the shelves, giving diners a semi-obstructed view of the cooking.

There is a weekly meeting here on Tuesday mornings, with Ms. Hom; Thomas Schlessner, the restaurant’s designer; Brett Traussi, the Dinex Group’s operations director; and Colin Alevras, DBGB’s sommelier. An agenda for the meeting is handed out, though it’s hard to hear anyone speaking over the din of saws and hammers.

You can hear enough to grasp that creating a restaurant is an endless series of decisions — the first few large (menu, location) and the next 7,000,000 tiny (where to hide an electrical cord). If there’s a guiding principle, it’s a preference for econo-class over luxury, without stinting on quality.

“This is a much smaller dishwasher than we’d like,” says Mr. Traussi, during a tour of the unfinished kitchen. “We also used a pot sink that was left over from the renovation of Daniel last year, and some old bar equipment, too.”

Plenty of decisions about DBGB are made on site at these Tuesday-morning meetings, but just as many come from the offices of the Dinex Group. Situated on the fourth floor of a Midtown building near Bryant Park, it has the open-air layout and décor of a dot-com start-up.

Many here are engaged in old-fashioned number-crunching — and there are plenty of numbers to crunch. After DBGB opens, there will be five New York restaurants, all of which are owned outright by Mr. Boulud and his partners. With the other restaurants — two in Vancouver, one each in Beijing, Palm Beach and Las Vegas — the company has management contracts with a variety of terms.

“When we manage a restaurant, we start making money from the first day,” Mr. Boulud explains. “When we own a place, it’s often five years before we earn the first penny that is clean of debt.”

Each restaurant is assigned a bookkeeper to track payroll and food costs. Alarms ring whenever gross margins drop below 10 percent. The chefs in each restaurant, all of whom Mr. Boulud has trained, have wide latitude when it comes to spending on ingredients, but if margins sag, [forensic](#) accounting will ensue.

“A few years ago, at Cafe Boulud, we couldn’t figure out why margins were so bad month after month,” says Lili Lynton, one of Mr. Boulud’s two partners. “Even the chef was baffled. We looked at everything and we finally realized — it was this reduction sauce, a really expensive reduction sauce, with truffles and mushrooms, which was in a bunch of dishes. Who would have thought? We figured it was the fish or the chicken or the meat. It was like a game of Clue, and the culprit was the gravy.”

A LOVE for minutiae is apparently a job requirement in this company. Consider the “mustard caddy,” a relish tray for DBGB that has taken months to design and is still a work in progress.

“Here’s the latest prototype,” says Michael Lawrence, assistant director of operations, sitting in a Dinex conference room. He has just retrieved an unadorned, dark-stained box, about 6 inches square and 4 inches deep.

“This is based on a sketch that Daniel drew — he’s a pretty good draftsman — and then we have a guy in upstate New York who will make them,” he said.

The idea was to build a snug little home for the collection of bottles, which will include two or three types of mustard, as well as ketchup, salt and vinegar. The box had to be durable, too.

“We were in here the other day slamming this box on the floor,” Mr. Lawrence says. “We also soaked it in water because these things are going to get wet.” He looked at the box with a bit of pride. “It warped a little but it stayed together.”

Mr. Lawrence has also taken the lead in choosing background music for DBGB, which he’s doing with Ear Networks, a company run out of the Hell’s Kitchen apartment-home office of Robert Drake, a sound engineer. The two have been fine-tuning the playlist for weeks, choosing from 45,000 songs in Mr. Drake’s library.

A few days after the mustard-caddy discussion, Mr. Lawrence invited a reporter along for a visit to Ear Networks, where he and Mr. Drake would designate tracks as “lunch,” “dinner” or “late night.” Generally speaking, the quiet stuff is lunch music — because nobody has been drinking — with livelier songs at dinner, and becoming more boisterous as the night wears on.

Mr. Drake clicked his mouse, and “Cowgirl in the Sand” by [Neil Young](#) blasted from the speakers.

“Late night or dinner?” Mr. Lawrence asked, shouting over the song.

“You tell me,” Mr. Drake said. “I was going to put it for dinner.”

“Yeah, it’s dinner, you’re right.”

In the end, DBGB will have a library of 4,000 songs and a sound system that can control the volume in different sections of the room.

For restaurants, music is one way to influence who shows up, or at least who comes back. You can aim at a demographic group by playing music that was beloved by its members when they were about 15 years old — the age when fandom typically leaves its most vivid tattoo. By that logic, DBGB is not exactly laying a welcome mat for the just-out-of-college set. There is little in the playlist that was recorded in the last 10 years.

That is no accident.

“It’s hard to get a liquor license around here, as you may know,” Mr. Traussi says, “and one of the things I heard when I canvassed people who live here is, ‘You’ll get kids in trucker hats and they’re never going to eat food and you’re going to turn into a bar before you know it.’ I think that’s an important concern. We’re not looking for that kid, right out of school who is 22 or 23. I think music is an important way to run a food-centric restaurant rather than a bar-centric restaurant.”

THE high-energy, persnickety style of the Dinex Group flows directly from the top. Mr. Boulud has a hard time ignoring the tiniest imperfections, and a harder time taking a day off. He describes the latter quality as a quirk that he really needs to work on.

Standing on East 65th Street near Park Avenue, on the sidewalk beside Daniel, he gestured to the apartment where he lives with his wife, Michelle. (The couple has a college-age daughter, Alix.) The apartment is almost directly above the dining room, a lifestyle choice that only a workaholic would make.

"I'm crazy," he says with a shrug, pointing to where he lives. He spins one hand as if it holds a screwdriver. "I've got to fix myself."

A 5-foot-6ish guy with the good looks of an anchorman and the eyewear of an architect, Mr. Boulud is an affable glad-hander when he's working the front of the room, with an amazing ability to remember names and a warmth that can't be faked. In the kitchen, he is serious and intense. He's never been tantrum-prone like [Gordon Ramsay](#), the British chef and reality-TV star, but he has said he's capable of a good 10-second outburst.

He doesn't seem particularly comfortable talking about himself or the source of his exacting standards. What he will say is that he's been the same way since childhood, growing up on a 50-acre farm outside Lyon, France. He and his family raised chickens, goats and guinea fowl and grew vegetables and grains.

The farm taught him the fine art of frugality, a skill not normally associated with artistes of the kitchen. Everything was either consumed or repurposed, he recalls. If there was soup left over from dinner, you threw in some vegetables and bread and fed it to the pigs.

"A lot of chefs don't have a natural sense of economy," he says. "I was with one guy the other day and I had to show him how to peel a turnip, because the way he was peeling turnips, he was throwing half of it in the garbage. It's not about being cheap. It's about being proper."

Mr. Boulud ran his first restaurant in Denmark, in 1980, and was executive chef at Le Cirque in Manhattan from 1986 to 1993. When he decided to light out on his own, Ms. Lynton, a longtime friend of Mr. Boulud's wife and then a researcher at a Wall Street brokerage firm, offered to help put together a business plan and look for investors.

At the time, she was married to a man with a very wealthy uncle named Joel Smilow, who in 1992 retired from a business career that included plenty of leveraged buyouts and a stint as the president and C.E.O. of Playtex.

"I call myself a retired brassiere salesman," says Mr. Smilow, now 76.

Already an active philanthropist, he was looking at the time for new investments that met two criteria: the venture had to be profitable, and it had to be fun. Mr. Smilow decided that Mr. Boulud's venture would fit the bill if, and only if, he was the sole backer.

"I felt like if there were six investors, they wouldn't get along with each other and they'd make life hell for the guy they were backing," he explains. "That happens more often than not when it comes to restaurants."

Mr. Smilow chipped in the roughly \$2.5 million needed to open Daniel in its original location, on East 76th Street near Madison Avenue, the current home of Cafe Boulud, and he has bankrolled every subsequent opening or, in the case of DBGB, helped guarantee a bank loan. Naturally, Mr. Smilow gets the visiting-potentate treatment at all Boulud restaurants, not to mention bragging rights.

Years ago, Mr. Smilow attended a dinner party at a friend's house in Florida, and the guests included Preston Robert Tisch, then a co-owner of the New York Giants. After the meal, over a cup of coffee in the living room, the two compared investments.

"Bob was a friend of mine and I said: 'Bob, in a certain way, I think the same joy and pride you get by being co-owner of the Giants is what I have in my partnership with Daniel and the restaurants. The only difference is that every night we're in the [Super Bowl](#). And every night we win.' "

NOT surprisingly, the Dinex Group has a very precise idea of how busy DBGB must be. It needs to fill each of its 140 dining seats twice on high-traffic nights (Thursday, Friday and Saturday) and 1.25 times on Sunday, Monday, Tuesday and Wednesday. Anything in excess of those numbers — say 2.25 seatings on a Saturday night — is money in the bank. There are similar calculations for lunch.

Seated in his skybox at Daniel on Tuesday, Mr. Boulud finished his nibble-a-thon with a thumbs-down for a crepe with a brownielike chocolate center. ("It needs to be muddier.") Then he tried to sound upbeat about his chances for succeeding in the worst economic environment in generations. Mostly, though, he exuded the uneasiness of a man who is unwilling to take much comfort in the winning streak of his past.

"It's indulgence on a dime instead of indulgence on a dollar," he said, summing up DBGB. Then he laughed and added, "Let's hope we have it right."

FLAVOR

Some of the most successful menu specials are created with a hand from commodity boards

Collaboration

BY JOAN LANG

In this challenging economy, limited-time offers (LTOs), promotions and menu specials are more important than ever. These marketing tools help operators engage consumer interest, build sales, protect the brand identity of core menu items and test potential menu additions. Commodity boards and other foodservice-marketing organizations can help keep menus on-trend and profitable.

"There's a long list of potential partners out there, [ranging from] beef to blueberries to rice," says Judy Dudley, director of marketing for Au Bon Pain, which recently partnered with the Hazelnut Marketing Board to create a hazelnut-fudge cookie, hazelnut vinaigrette and several other successful LTOs.

"Even if they don't have a big budget, they and the agencies that represent them are very marketing savvy and can provide all kinds of benefits, including exposure and branding appeal," notes Dudley.

The mission of commodity boards and other marketing organizations is to serve the producers and industries they represent. These groups encompass many ingredients, including commodities like pork and soybeans, as well as place-specific agricultural products, such as Vidalia onions, and specialty items like olive oil and cheese.

By promoting short- and long-term growth through strategic investment in research, marketing and education programs, boards can offer everything from off-the-rack, foodservice-tested recipes and promotional materials to entirely bespoke menu items and promotions — with marketing dollars to back them.

PROFITS FROM PORK

In some cases, the organization's mission is to help source product. For instance, the National Pork Board, which is

supported by the Pork Checkoff program, funded by producers' per-animal contributions, has spent the last several years focusing on new products designed to get more pork on more tables, reports Paul Perfilio, the board's national foodservice-marketing manager.

To that end, the board worked with Destin, Fla.-based Tropical Smoothie Café on several new fresh-pork items, including a Kinda Cubano sandwich. Filled with Cuban-style, sliced, roasted pork loin, capicola, Swiss cheese and bistro sauce, along with fresh greens, tomato and banana peppers on a toasted ciabatta, it has become part of the 260-plus-unit chain's new Bistro Sandwiches menu. The Kinda Cubano is promoted in part through the use of the iconic Pork logo on menu boards and printed menus.

"Prior to this, Tropical Smoothie hadn't worked with any pork except ham," notes Perfilio. "We introduced [the company] to a variety of minimally processed, fully cooked pork products that would help make the sandwich operationally easy to produce."

R&D experts at the chain eventually selected a presliced, roasted and seasoned pork-loin product and tested other pork-based items, including a flatbread sandwich that can carry a lower price point. For a chain, the value of such assistance is considerable, but support exists at every conceivable level.

MUSHROOMING SALES

"We've done programs worth anywhere from \$5,000 to \$75,000 or more for a national chain or a really big project," says Alexei Rudolf of San Francisco-based Edelman public-relations firm, speaking on behalf of the Mushroom Council. An initiative with a major, national, quick-serve chain represented an 18-month commitment

A recent Mushroom Council-funded text-messaging campaign helped spread the word about the Southwest Philly burrito special at Moe's Southwest Grill.



in terms of both menu development and marketing assistance.

"Part of the criteria is not just building sales and volume of product sold but also reaching consumers and raising their general awareness," adds Rudolph, who has worked with a number of commodity-marketing organizations. "That's why we might focus on a server-incentive program, for instance, rather than just a limited-time offer or other menu items."

"In the case of Applebee's, we were essentially paying the waitstaff to talk about mushrooms by providing them with a tip card that provided five selling strategies. That's invaluable exposure, which is hard to get from any other means."

An LTO can provide more than just a new menu item. Atlanta-based Moe's Southwest Grill ran a recent Phil E. burrito and quesadilla program in partnership with the Mushroom Council, which also gave the chain entrée into the mobile advertising medium.

"We've been wanting to try text messaging, but it wasn't in this year's budget," says Sara Riggsby, director of marketing for Moe's, a 400-plus unit Mexican fast-casual chain that recently came under the Focus

Brands umbrella, along with Carvel, Cinnabon and Schlotzsky's.

Available from March 2 through May 31, 2009, the Phil E. menu items feature traditional Philly cheese steak ingredients — sirloin steak, sizzling peppers, onions, mushrooms and shredded cheese — with the Southwestern twist of queso and a warm tortilla. The edgy chain's first text-messaging campaign, targeting a portion of the population that doesn't clip coupons, offered \$2 off a Phil E. purchase when a guest texted "MOES" to 46786.

"Part of the strategy with LTOs at Moe's is to build excitement and sales by finding a common product and putting a Southwestern twist on it," explains Riggsby, noting that the Mushroom Council has been actively courting Moe's ever since a chance industry meeting two years ago. The chain already carried mushrooms, so a new menu item featuring the ingredient made perfect sense.

The Mushroom Council footed the bill for a text-messaging company that worked with Moe's existing database on managing and fulfilling the initiative.

"Redemptions have been excellent, and the idea is that recipients will forward the message

Chip-and-dip promotions can create new ready-made party options for Mexican concepts.



PHOTO: FRANK ARONCO

Blueberry nutrition facts printed on Planet Smoothie cups created a mobile messaging system and brought extra attention to the chain's blueberry-packed smoothies.



to friends and talk it up," says Riggsby. "Because we're ahead of the competition now on text messaging, it helps boost our image and build brand equity for Moe's among the kind of customers we're interested in."

Although it's too soon to tell what the final sales results will be, Riggsby reports that a franchisee who experimented with text messaging on another initiative realized a \$2,000-a-week increase in single-store sales.

Small wonder that the boards are actively courting chain partnerships.

"Basically, we work like national account salespeople on behalf of the commodity board," says Rudolf.

"In general, we're looking for chains that are either using a lot of mushrooms already and can increase their usage with new products, or we're looking to introduce the ingredient."

"Seasonal and limited-time offerings are among the easiest avenues, because they exist for a defined period of time that can be tracked and measured."

BUILDING ON STRENGTHS

A lot of chains aren't aware of the scope of culinary support available; they might know about preferred-vendor and credit-back arrangements but are unfamiliar with the custom menu-development work and marketing support that a partnership with a commodity or marketing board can provide.

"We've done work with a number of boards on a variety of different products; each organization has its own strengths and goals," says Melinda Bustos, director of food and beverage for Rubio's Fresh Mexican Grill.

"The California Milk Advisory Board has been very helpful on a number of occasions, and we worked with [the National Pork Board] when we were developing carnitas."

"We look at the types of items we plan to feature and the timing, so that we can take advantage of seasonal availability," says Bustos. "Many of the boards will help develop recipes and source products, and especially for a small chain, that can be a great resource."

"Even if there are no actual marketing dollars available, events like demonstrations, tours of growing areas, seminars and conferences can be a huge benefit in terms of generating ideas. And when one of the boards



Peanut flour boasts more than twice the energy-boosting protein of all-purpose white wheat flour, along with a pleasingly nutty flavor profile. No wonder more and more chefs are incorporating it into both new and old favorite recipes like the one below.

YUCATAN PORK IN PEANUT MOLÉ

- 4 cups chicken broth
- 1/2 cup peanut flour
- 1/4 cup onion, peeled and minced
- 1 tsp garlic, peeled and minced
- 1/4 cup chili powder
- 1/4 cup cumin powder
- 1/2 tsp kosher salt
- 1/2 tsp black pepper, fine grind
- 1 tsp chili flakes
- 1/2 tsp cinnamon, ground
- 2 tsp paprika, ground
- 1/4 tsp white pepper, fine grind
- 1/4 cup tomato paste
- 1 tsp granulated sugar
- 1 Tbsp corn starch, mixed with
- 2 Tbsp cold water
- 4 cups pre-cooked pork roast
- 12 each tacos or tortillas
- 1/2 cup sour cream
- 1/2 Tbsp green onions, sliced

Combine all ingredients except cornstarch/water mix in a heavy bottomed sauce pan set over low heat. Bring to a simmer, stirring as needed. Cook until thick—about 15 minutes, stirring occasionally. Whisk in cornstarch/water mix and simmer until thickened. Shred or cube pork. Add pork to sauce and heat thoroughly. Serve in warm taco shells or tortillas. Garnish with sour cream and onion.

PEANUTS:
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FLAVOR PARTNERS

features your company in its ads or articles in industry publications, you get a great deal of PR and awareness out of it."

"In this economy, especially, chains are looking for ways to build sales and help defray costs," notes Jason Sternm, associate vice president of Lewis & Neale, a marketing-communications agency that represents Avocados From Mexico and the U.S. Highbush Blueberry Council, among other commissions.

"Boards can provide help with developing new menu items as well as funding for menu inserts, direct mail, counter and point-of-sale (POS) signage and even employee sales incentives. It can be a whole, turnkey sales package. The only real issue is that the program usually has to work within the existing distribution-and-supply chain."

THE AVOCADO ADVANTAGE

Support from a marketing organization can be particularly meaningful for a smaller chain. Take the case of Desert Moon Fresh Mexican Grille, a 13-unit, mall-based concept that has worked on several significant LTO projects with Avocados From Mexico.

"Their promotional dollars and the arsenal of materials they created for us have meant a lot," says Fred Kirvan, director of brand development for the 17-year-old chain, which has franchises in Connecticut, Florida, New York, Pennsylvania, New Jersey, Massachusetts and Virginia.

"Our specialty is fresh guacamole — we sell more of that than any other item — so the partnership makes a lot of sense for us."

Four years ago, when Mexican Hass avocados first became available year-round, Desert Moon began using them exclusively as a point of differentiation for its creamy, tomato-free guacamole.

Avocados From Mexico approached the company with two ideas: a cobb wrap sandwich (basically a cobb salad in a tortilla wrap, complete with cubed chicken, avocado and other iconic cobb-salad ingredients) to expand avocado usage and a party-sized Avocado Fest promotion to boost sales of larger-size guacamole orders. Kirvan jumped at the opportunity. "Being located primarily in the Northeast, we thought using avocados from Mexico was unique and quality-oriented but still something our customers could understand."

Although both initiatives started as LTOs, the Cobb Wrap has become a regular menu feature, capturing 8 percent of sales when it's actively promoted and 3 to 4 percent of sales the rest of the time. And the Avocado Fest, featuring freshly made guacamole and chips with three salsas, available to take home, is re-launched whenever local operators deem it appropriate.

The Super Bowl and March Madness are two easy Avocado Fest tie-ins, and operators turn to the promotion whenever takeout sales of guacamole could use a boost. In addition to providing R&D collaboration for the wrap-sandwich recipe and creating POS materials, the board funded banners for stores.

"We have these beautiful banners that Avocados From Mexico paid for, and the franchisees love them," says Kirvan. "They use them whenever they possibly can. All of these programs have been really huge for us. People ask us all the time when the next Avocado Fest is going to be. You can't buy that amount of awareness with any amount of money."

BLUEBERRY BONANZAS

Showcasing a particular ingredient is a time-honored strategy for an LTO — especially when it's a product with the popularity and cachet of blueberries.



Highly successful board-partnered LTOs can claim a place on permanent menus, as with this blueberry pound cake at Rock Bottom.

"Blueberry Pound Cake was by far the most popular dessert LTO we've ever done," says Karen Lozano, director of marketing for Rock Bottom Restaurant and Brewery, a 35-unit brewpub chain that ran the item for two weeks in January. "In fact, it was so well-received, you'll be seeing it on the regular menu starting this summer."

The chain worked with the U.S. Highbush Blueberry Council on the simple but

appealing dessert, providing support for the printing costs of a menu insert as well as a newspaper ad and use of the logo.

The item hit all the right flavor and comfort buttons with customers.

"For us, it's a matter of finding the right product fit," says Lozano, reflecting on the first-time partnership. "Together you create these synergies. Guests loved it because the pound cake was so good, and we loved it because the item created a lot of buzz. An LTO partnership is a great way to bring it all together."

For Planet Smoothie, promoting existing products with U.S. Highbush Blueberries worked well because the berries' nutritional profile is a perfect and timely fit with the 123-unit chain's strategy of helping to educate customers about the benefits of a healthy diet in general and smoothies in particular.

"We loved the idea of promoting blueberries," says Beck Shell, vice president of marketing for Planet Smoothie. "People love them, and they're one of the most well-known 'superfoods.'"

The Berry Impressive campaign highlighted three existing blueberry-based products — the Road Runner energy smoothie and Cool Blended Vinnie del Rocco and Shag-a-delicious smoothies — with window clings, logoed cups and an e-mail blast to 35,000 customers in the chain's database. The printed materials, provided with the council's support, highlighted nutritional facts about blueberries.

"Because [smoothies are] a mobile product, our cup is one of our greatest tools for promoting, advertising and educating our customers," adds Shell. "Others may see it — at work, at the gym and so on — so it's great exposure."

"In putting together our promotions, we always decide first what our objective will be, whether creating trial, generating awareness or educating our customers," she explains. "Then we go out and find partners to help us." ☺

JOAN LANG, founder and editorial director of Full Plate Communications in Cape Elizabeth, Maine, can be e-mailed at joanlang@aol.com.

TAKE-AWAY TIPS

PARTNER IN THE KITCHEN: R&D support from boards can help bring a menu idea to full multi-unit execution, even when times are tough.

PLAY TO STRENGTHS: If you're already using a lot of eggs, avocados or walnuts, contact those boards for fresh ideas and support.

MAKE A SPLASH: Use boards' marketing support to fund in-store signage, outside banners, menu inserts, cups and other printed promotions.

TAKE A CHANCE: Board-funded culinary contests are another way to promote kitchen creativity and commodity partnerships.

